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DEVELOPMENT STRATEGIES for the 21st century: the case of Peru

Coordinator: Francisco Sagasti

agenda: PERU
# Index

| Preface                                      | 17 |
| Coordinator's note                          | 19 |

## PART ONE: INTRODUCTION AND CONTEXT

### Chapter 1: *The starting point*
- Life in Peru: crisis and promise 25
- Evolution of the idea and practice of development 27
- Futures of the past and shared aspirations 29
- Visions of the future Peru and notions of the common good 32
- Development strategy and democratic governance 35
- Crisis, strategy and promise at the start of a new century 36

### Chapter 2: Peru in the new international arena
- Introduction 43
- The fractured global order 43
- Globalization, ideology, the State and foreign policy 47
- Toward active management of international insertion 51
  - Economic insertion and productive transformation 52
  - The international dimension of social policies 54
  - The international dimension of environmental management 59
  - International implications of territorial organization 60
- Some consequences for foreign policy 61

## PART TWO: A FRAMEWORK FOR STRATEGIC DECISIONS

### Chapter 3: *Productive transformation and competitiveness*
- Introduction 69
- Macroeconomic policy 71
  - Stabilization and reforms in the 1990s 71
    - The stabilization program 71
    - Structural reforms 73
    - Financial reinsertion 74
  - Macroeconomic policy and development strategy 74
    - Fiscal policy and public finances 76
    - Monetary and exchange rate policy 77
    - Financial system and domestic savings 78
    - Trade policy 80
    - Institutions and regulation 81
- Sectoral policies 81
Index

- Farming and stockbreeding: the challenge of productivity 82
  - Regional differences 82
  - Increasing productivity 83
  - Funding agricultural activities 85
  - Food security and farming production 86
  - Irrigation projects and price policies 86
- Mining: toward world leadership 87
  - Promotion of mining activities 88
  - Support for medium and small mining 89
- Fishing: the challenge of sustainable development 90
  - Sustainable use of fishing resources 90
  - Investment in the fishing sector 91
  - Promotion of human consumption of fishing products 91
- Tourism: Peru as one of the world's main destinations 92
  - International and domestic tourism 92
  - Diversification of tourist destinations 93
  - Tourism infrastructure and institutional framework 94
- Energy generation: linking demand and reserves 94
  - Hydrocarbons: reserves, exploration, production and imports 95
  - Privatizations and the promotion of investment in hydrocarbons 96
  - Electricity: changes in the structure of the sector 97
- Industry: the challenge of reconversion and competitiveness 98
  - Evolution of Peruvian industry 98
  - Toward an efficient and competitive industry 99
- Civil construction: multiplier effect, employment and linkages 102
  - Anticyclical policies, business development and public investment 102
  - Housing construction 103
  - Employment generation and links 104

Chapter 4: Integration, equity and social justice

- Introduction 109
- Coordination between the state, the private sector and civil society 112
- Demographic transition and social policies 113
- Provision of basic social services 114
- Education 115
  - Teacher training 118
  - Better teaching methods and curricula 119
  - Education, science and technology 119
  - Decentralization and differentiation in state education 119
  - Reform of the education system structure 120
  - Early childhood care 120
  - Higher education and training for development 121
- Health, nutrition and sanitation 122
- Food security, nutrition and health 124
- Toward a national health policy 124
- Broadening coverage and the state's role in health services 125
- Toward a pluralistic, equitable and efficient health system 126
- Sanitation and potable water 127

- Housing 127
  - Strengthening the legal framework and property rights 128
  - Financing and mortgage loans 129
  - Subsidies and infrastructure development services 129

- Poverty reduction 130
  - Targeting efforts and elimination of endemic poverty 130
  - Lessons in poverty reduction 132
  - Strengthening the institutional framework 133
  - Promotion of local and regional development 134

- Employment generation and broadening access to goods and services 134
  - Employment generation in the formal productive sectors 137
  - Improving employment quality in the parallel economy and self-employed sectors 138
  - Innovations in employment generation and access to goods and services 139

Chapter 5: Management of the environment, natural resources, science and technology

- Introduction 145

- Environment and development: approaches, sustainability and policies 146
  - Approaches to environmental management 146
  - The concept of sustainable development 148
  - Explicit, implicit and resultant environmental policies 149

- Natural resources: potential, use and conservation 150
  - The value of biodiversity and environmental services 152
  - Forestry resources 156
  - Fishing resources 158
  - Land as a natural resource 161
  - Water as a natural resource 162
  - Mineral resources 164
  - Energy resources 166

- Reducing environmental pollution 168
  - Solid waste 169
  - Air pollution 170
  - Water pollution 171

- Design and implementation of environmental policies 172
  - Institutional development 173
  - Regulation and control of market incentives 174
Index

- Information systems, research and technical assistance 175
- Citizen participation 176
- Scientific research and technological innovation 178
- The information society and its techno-economic paradigms 178
- Development of science and technology in Peru 180
- An emergency plan 182
- Technological innovation systems 185
- Technological pluralism and traditional knowledge 186

Chapter 6: Territorial organization

- Introduction 191
- Territorial ordering 191
  - Environmental diversity and territorial classification 192
  - Conflicts in the use of space 196
  - Watersheds and territorial ordering 196
  - Consolidation and articulation of economic spaces in the regions 197
- Urban and rural development planning processes 200
  - Cities as engines of development 200
  - Development of rural areas 203
  - Geographical information systems 204
- Construction and maintenance of physical infrastructure 205
  - Land transportation 206
  - Port infrastructure 209
  - Airports and commercial aviation 209
  - Energy transmission and distribution 210
- Telecommunications development 211

PART THREE: INSTITUTIONAL REFORMS, IDENTITY AND CULTURE

Chapter 7: Institutional reforms and democratic governance

- Introduction 219
  - Utopias and governance 219
    - Beyond the four utopias 220
    - The imperative of democratic governance 220
  - Reform of the State 221
    - The role of the State: in search of consensus 222
      - The general function and size of the State 222
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reforms of the State in Peru</td>
<td>224</td>
</tr>
<tr>
<td>Major problems of the State at the start of the 21st century</td>
<td>225</td>
</tr>
<tr>
<td><strong>Reform of the Executive Branch</strong></td>
<td>230</td>
</tr>
<tr>
<td>New organic structure of the Executive Branch</td>
<td>230</td>
</tr>
<tr>
<td>Reordering the ministries and related agencies</td>
<td>230</td>
</tr>
<tr>
<td>A new relationship between the president, the prime minister, the ministers and the secretaries of state</td>
<td>231</td>
</tr>
<tr>
<td>Levels of responsibility in public management</td>
<td>232</td>
</tr>
<tr>
<td>Human resources for public management</td>
<td>233</td>
</tr>
<tr>
<td>Public managers</td>
<td>233</td>
</tr>
<tr>
<td>Advisors in senior public management</td>
<td>233</td>
</tr>
<tr>
<td>Experts on public management issues</td>
<td>234</td>
</tr>
<tr>
<td>Personnel reduction and job reconversion</td>
<td>234</td>
</tr>
<tr>
<td>Allocation of resources and management of public expenditure</td>
<td>234</td>
</tr>
<tr>
<td>Budget management, evaluation and expenditure control</td>
<td>234</td>
</tr>
<tr>
<td>Regulatory systems in the Executive Branch</td>
<td>235</td>
</tr>
<tr>
<td>Regulation of natural monopolies</td>
<td>236</td>
</tr>
<tr>
<td>Regulating the use of natural resources</td>
<td>236</td>
</tr>
<tr>
<td>Regulation of financial institutions</td>
<td>236</td>
</tr>
<tr>
<td>Regulating competition and protection for intellectual property</td>
<td>236</td>
</tr>
<tr>
<td><strong>Reform of the Judicial Branch</strong></td>
<td>237</td>
</tr>
<tr>
<td>Autonomy and self-government</td>
<td>238</td>
</tr>
<tr>
<td>Providing judicial services</td>
<td>238</td>
</tr>
<tr>
<td>Codes of procedure</td>
<td>238</td>
</tr>
<tr>
<td>Justices of the peace, community justice, arbitration and conciliation</td>
<td>238</td>
</tr>
<tr>
<td>Selection, appointment and promotion of magistrates</td>
<td>239</td>
</tr>
<tr>
<td>Toward an authentic judicial reform</td>
<td>239</td>
</tr>
<tr>
<td><strong>Reform of the Legislative Branch</strong></td>
<td>239</td>
</tr>
<tr>
<td>Restoring the bicameral Congress</td>
<td>240</td>
</tr>
<tr>
<td>Chamber of senators</td>
<td>240</td>
</tr>
<tr>
<td>Chamber of deputies</td>
<td>241</td>
</tr>
<tr>
<td>Strengthening the parliamentary jurisdiction</td>
<td>241</td>
</tr>
<tr>
<td><strong>Reforming the electoral system</strong></td>
<td>241</td>
</tr>
<tr>
<td>Presidential election</td>
<td>242</td>
</tr>
<tr>
<td>Parties and political movements</td>
<td>242</td>
</tr>
<tr>
<td>Foundation and disappearance of parties and movements</td>
<td>242</td>
</tr>
<tr>
<td>Standards for internal functioning</td>
<td>243</td>
</tr>
<tr>
<td>Financing the parties</td>
<td>243</td>
</tr>
<tr>
<td>Electoral campaigns</td>
<td>243</td>
</tr>
<tr>
<td>Electoral organisms and processes</td>
<td>244</td>
</tr>
<tr>
<td><strong>Deconcentration, decentralization and regionalization</strong></td>
<td>244</td>
</tr>
<tr>
<td>Priorities for decentralization</td>
<td>245</td>
</tr>
</tbody>
</table>
# Index

- Options for regionalization 245
- Decentralizing the Legislative and Judicial Branches 247

**Reform of the private sector** 247
- The private companies 248
  - The large company 249
  - The medium-sized company 249
  - Small and micro companies 250

**Reform of civil society organizations** 252
- Civil society 252
  - A plural civil society 253
  - Relationships between civil society and the State 255
  - Youth and student organizations 256
  - Civil society, power and State: reforming political parties and movements 259

**Reform of the security institutions** 260
- The security institutions 260
  - Civilians, military and national defense 261
    - Military justice 263
  - The economic activities of the armed forces 263
  - Control of emergency zones 264
  - Intervention in electoral processes 264
  - The role of the intelligence services 264
  - Citizen security, the National Police and civil society 264
  - Civil defense: a joint task 266
  - Personal security and human rights 267

## Chapter 8: Culture, identity and values

- Introduction 273
- Changing mentalities and national identity 273
  - A continually evolving identity 274
    - Diversity and heterogeneity 277
    - Peruvian history and identity 279
    - Integrating myths and metaphors 280
- Values, democracy and development strategy 281
  - Values and strategic directions 282
  - Values, institutional reforms and democracy 283
    - Combating corruption 285
  - The trammels of authoritarianism 285
  - Human rights and culture of peace 287
  - Values and globalization 288
  - Attitudes, values and identity: the role of education, the mass media and cultural promotion 289
  - Education, identity and values 289
• Simultaneous Peru: values, identity and the media 290
• Promoting creativity, the arts and sport 292

PART FOUR: FINAL COMMENTS

Chapter 9: *The next steps: toward putting the strategy into practice*

• Introduction 299
• Development strategy and acceptance by citizens 301
  • Citizen attitudes and development policies 304
    – The long economic adjustment 304
    – Legitimate and illegitimate inequalities 305
    – Ecology and computers 306
    – Decentralization and joining markets 307
• Democracy, institutions and identity 308
• The need for major change and the conditions to make it happen 309
  – More sacrifice? 310
  – Priorities and leadership to put the strategy into practice 311
• Priorities and sequences 311
• Leadership, leaders and a development strategy 312

Bibliography 317

About Agenda:PERU 321

Participants 323

Index by topics 327
FIGURES

1.1 Population growth and per capita GDP trends 26
2.1 The three domains of the fractured global order 50
2.2 Long-term deterioration in raw materials prices 54
2.3 Net flows of external resources to developing countries 57
2.4 Net flows of external resources to Peru 57
3.1 Inflation and devaluation (logarithmic scale) 71
3.2 Real multilateral exchange rate 71
3.3 Real interest rate to borrowers in soles 73
3.4 Distribution of tax collections (1998) 73
3.5 Balance on current account (as a percentage of exports) 79
3.6 Evolution of agricultural productivity index 85
3.7 Number of international arrivals, 1980-1999 94
3.8 Petroleum exploration and development: wells drilled 1980-1999 97
3.9 Hydrocarbons trade balance, 1980-1998 97
3.10 Ratio of manufacturing production of GDP 100
3.11 Composition of value-added in manufacturing industry 101
3.12 Rates of overall GDP growth and construction GDP 106
4.1 Peruvians living below the poverty line and in extreme poverty 109
4.2 Peruvians with at least one basic necessity unsatisfied 110
4.3 Income inequalities between the highest and lowest deciles of the population 110
4.4 Annual population growth, 1990-2020 114
4.5 Income levels by quintiles and education levels reached by population 15 years and over (1997) 116
4.6 Annual increase of population aged 15 to 64 years (1998-2010) 135
4.7 Percentage of population aged 15 to 64 years (1998-2010) 135
4.8 Economically active population, according to national censuses (1940-1993) 137
4.9 Jobs generated for each US$100,000 invested in fixed assets, by economic activity, 1993 138
5.1 Vavilov centers 153
5.2 Comparison of the estimated potential fish and average volumes caught by fishing zones, 1990-1994 159
5.3 Fish landed 1950-1997 160
6.1 Coastal relief map (transversal section) 193
6.2 Peru's natural regions (according to Javier Pulgar) 195
6.3 Principal urban population centers 201
6.4 Multimodal corridors 208
6.5 Index of telephone penetration in Latin America (1997) 212
7.1 Average size of electoral districts in Latin America 229
7.2 Proposed reorganization of the Executive Branch 232
8.1 Linguistic maps of Peru 278

TABLES

2.1 The main dimensions of the fractured global order 44
2.2 Dimensions of the fractured global order and initiatives for international insertion 52
2.3 Principal export products 1965 and 1997 55
3.1 Main agricultural indicators 1970-1995 83
3.2 Importance of mining in Peru (1998) 89
3.3 Total electricity generation 98
3.4 Existing capacity and investment opportunities in mining supply industries 104
4.1 The traditional approach and ongoing social policy changes in Latin America 111
4.2 Students and teachers in the education system 117
4.3 Level of education reached by the adult population (1940-1997) 117
4.4 Health service availability indicators 124
4.5 Housing characteristics and services (1997) 128
5.1 Approaches to relations between environment and development 146
5.2 Natural areas protected by the State 154
5.3 Principal forest ecosystems 156
5.4 Use of agricultural inputs 161
5.5 Production and reserves of Peru’s principal metals, 1997 165
5.6 Energy reserves and production, 1998 167
5.7 Hydrocarbons reserves, 1997 167
5.8 Environmental policies in Peru at the end of the 20th century 175
7.1 Current major problems in the Executive Branch 227
7.2 Decentralization, deconcentration and type of public management 247
7.3 Criteria for sequences of decentralization and deconcentration: illustrative examples. 247
7.4 Job creation and numbers employed 249
8.1 Values that support the development strategy and the rebuilding of Peru’s social fabric 283
## Index

### 9. Citizens' perception of the economic situation
- 9.1 Citizens' perception of the economic situation 304
- 9.2 Social programs and beneficiaries 306
- 9.3 Access to computers nationally 307
- 9.4 Meaning of decentralization (by region and area) 308

### BOXES

| 1.1 | Humanism and development | 29 |
| 1.2 | Futures of the past | 30 |
| 1.3 | The idea of a National Project | 32 |
| 1.4 | A vision of Peru | 33 |
| 1.5 | Studies of the future and strategic planning | 37 |
| 2.1 | The social challenge of financial globalization | 46 |
| 2.2 | Globalization and pessimism | 47 |
| 2.3 | The domains of the fractured global order | 49 |
| 2.4 | Trade negotiations currently under way | 56 |
| 2.5 | The Global Alliance for Vaccinations and Immunizations (GAVI) | 58 |
| 2.6 | The Clean Development Mechanism of the Kyoto Protocol | 60 |
| 2.7 | A concept of international policy | 61 |
| 2.8 | International image and vision of Peru | 62 |
| 3.1 | Productive clusters around natural resources | 70 |
| 3.2 | Fifty years of advances and retreats | 72 |
| 3.3 | Peru's foreign debt | 75 |
| 3.4 | Allocation of financial resources in the public sector | 78 |
| 3.5 | The impact of macroeconomic stabilization on rural households | 84 |
| 3.6 | Tourism and employment generation | 93 |
| 3.7 | Clusters and linkages in industrial development | 105 |
| 4.1 | Dimensions of exclusion and social policies | 110 |
| 4.2 | State weaknesses in the design and implementation of social policies | 112 |
| 4.3 | The demographic transition process and social policies | 113 |
| 4.4 | Pensions | 115 |
| 4.5 | Current trends in state education | 118 |
| 4.6 | The proposal of Foro Educativo | 121 |
| 4.7 | The potential of wawa wasi | 122 |
| 4.8 | Financing higher education | 123 |
| 4.9 | Social security and health services | 126 |
| 4.10 | The Mivivienda program | 130 |
| 4.11 | Poverty in Peru: definitions, characteristics and recent developments | 131 |
4.12 Dimensions of exclusion, types of poverty and future generations 132
4.13 A valuable experience: Foncodes 1995-1998 133
4.14 Employment and generational expectations 136
4.15 Employment in Peru in the 1990s 137
4.16 Provision of low-cost social services to generate employment using modern technology 139
4.17 Sustainable livelihoods and local employment generation 140
4.18 Wealth and social currency 141

5.1 Sustainable development 149
5.2 Environmental services 152
5.3 Photosynthesis in the tropical forest 154
5.4 The National Biodiversity Institute of Costa Rica 155
5.5 Camisea and the Shell-Mobil consortium 168
5.6 Environmental impact assessments and environmental management programs 169
5.7 ISO 14001 and environmental management 171
5.8 The Structural Framework for Environmental Management (MEGA) 174
5.9 Tax instruments 176
5.10 Non-tax instruments 177
5.11 Environmental policy instruments 178
5.12 Changes in the techno-economic paradigm 181
5.13 A support fund for scientific and technological investigation 184
5.14 Public policies to encourage technological innovation 186

6.1 Control of ecological levels in pre-Hispanic Peru 191
6.2 National commission on territorial organization 192
6.3 The natural regions of Peru 194
6.4 Agro-ecological zones and productive management of the Andes 196
6.5 Hydrocarbons exploitation and environmental protection 196
6.6 Watershed management 197
6.7 Recent experiences of regional planning 198
6.8 Bonds and municipal funds 203
6.9 Urban planning in the transition to the 21st century 204
6.10 Internal migration and imbalances in settlement patterns 205
6.11 State, private sector and concessions 207
6.12 Potential of new communications technologies 212

7.1 Different concepts of the State 222
7.2 Reform in the Judicial Branch and Public Ministry during the 1990s 228
7.3 Alternative systems for conflict resolution 240
7.4 Social responsibility of companies 251
7.5 The experience of Agenda: PERU in supporting youth organizations 257
Index

7.6 The State and information for civil society organizations: the Argentine case 258
7.7 Legal situation of non-profit civil organizations 259
7.8 The evolution of the national security doctrine 261
7.9 The party network: toward a new kind of political organization 262
7.10 Problems that limit the capacity of the National Police 265
7.11 International strategy to reduce disasters and their impact 267
7.12 Program to combat drugs 268
7.13 Public security and prevention: the DESEPAZ program in Colombia 269

8.1 Changing customs and values: a view form the time of Independence 273
8.2 Diversity and creativity: the view of Jose Maria Arguedas 274
8.3 The original rift 275
8.4 The middle class: values, identity and citizenship 276
8.5 Gender exclusion: machismo, social presence, and political absence 276
8.6 The worldview of the Andean peasant farmer 280
8.7 The pertinence of Andean values 281
8.8 Re-election: just say no 286
8.9 Truth and reconciliation commission 288
8.10 Content of citizen education 291

9.1 The methodological approach of Agenda: PERU 301
9.2 Some conclusions from the opinion polls carried out by Agenda: PERU 303
9.3 Peruvians’ self-image and self-esteem 310
9.4 Elements of the democratization program proposed by the OAS Commission 312
9.5 Those who have frustrated the Peruvian dream 314
Preface

This publication is the final report of the Agenda: PERU program on development strategies, institutional reforms and democratic governance. It incorporates most of the material we have produced since the start of our activities in January 1993, and presents the main conclusions we arrived at. Our work has comprised desk and field research, consultations with experts and common citizens, and dissemination activities as results became available.

In a first stage, which lasted until 1995, we carried out a diagnosis of the principal development problems facing Peru, as well as an examination of the difficulties we encountered to promote and consolidate democratic governance. The three editions of our first publication Democracy and Good Government¹, deal with these issues.

The second stage of Agenda: PERU began in 1996 with the preparation of several reports on specific issues (reform of the State, policies for environmental sustainability, vision for the future of Peru, participation of youth in public life, social policies, cultural identity, women’s participation in political and social life. For a complete list see the attached bibliography). In parallel we continued to update the initial diagnosis, introducing modifications as the situation evolved locally and at the international level, and as our activities improved our appreciation of the challenges faced. By 1998 it had become evident that one of the main concerns we had identified during our visits and events throughout the country was the lack of a shared vision of the future and of a development strategy to approach this vision. We therefore focused our attention on this question during the final three years of our work, and the present report – which offers a development strategy for the first two decades of the 21st century – contains the results of our efforts.

From the outset Agenda: PERU set itself the task of becoming a “transmission belt” between experts and citizens at large, involving both groups in dialogue and consultation in an atmosphere open to criticism, and seeking to arrive at operational consensuses on a variety of specific issues. The methodology we have employed is in accordance with the democratic and participatory vision that underpins our program. Thus, our work has involved a two-way process. On the one hand, we have permanently contrasted the results of our consultations and discussions with experts against the opinions expressed by different groups of citizens in workshops, seminars, focus groups, opinion polls and during presentations made by the Agenda: PERU team. On the other hand, these citizen opinions were taken back for consultation with experts, which enriched the range of issues, concerns and viewpoints they were deliberating upon. The process has meant that the work in progress has been constantly open to verification and rectification. In this way, we have been able to come up with a development strategy whose design incorporates not only policies and strategic directions, but also the institutional reforms that are required to implement these and to make possible democratic governance. In addition, we have been able to incorporate the changes in mindsets and values necessary to reaffirm our sense of identity and to support policy changes and institutional reforms.

To explain our work and its result, we have resorted to a textile metaphor: our country must reconstruct its social, economic, political and cultural fabric during the next two decades. The vast and multifaceted weave that makes up Peru is set up on a loom delineated by our borders. But, as is appropriate to the times we live in, many threads that emerge from within extend beyond our frontiers and project what we are into the vast scene of a globalized world. At the same time, we incorporate into our fabric a multiplicity of threads that originate from the rest of the world, and these make a significant impact on its texture.

The strands of the warp and the weft criss-cross in the loom. The strategic directions we propose – productive transformation and competitiveness; social integration, equity and justice; environmental management, science and technology; and territorial organization and physical infrastructure – are the strands of the weft. The institutional reforms – embracing the State, the private sector, civil society and security institutions – represent the strands of the warp. Our cultural identity and our values are the colors, designs and patterns of the fabric that must be continuously rewoven.

The text that follows is also a “pretext”, both in the sense of being a preliminary text open to revision and modification, and in the sense of being a pretext to engage in conversation and to exchange ideas. The words “text” and “textile” are closely related. The urgency of the moment we are living means that this closing report from Agenda: PERÚ is an open invitation – to every one in his or her sphere of action – to join the vast, complex and beautiful task of reweaving the social fabric of our nation.

Lima, November 2000

Francisco Sagasti and Max Hernández
Co-directors of Agenda: PERÚ
Coordinator’s note

This publication is the final report of the work carried out by Agenda: PERU on democratic governance, institutional reforms and development strategies. The project began in January 1993 and concluded at the end of the year 2000. The publication also incorporates the results of a number of studies carried out between 1993 and 1995 as part of a study on governance by GRADE.

Preparation of this final report took more than a year and demanded a considerable effort at synthesis. The starting point was a large number of working documents – some of which were later published as books – and the notes taken during the course of more than a hundred events organized by the Agenda: PERU team. In all these events, we received valuable inputs, ideas and proposals which have been incorporated into the final report and in many instances, participants gave us written comments and suggestions. In the addendum is a list of those who generously gave their time to participate in the events organized by Agenda: PERU.

More than 40 people have contributed, to a greater or lesser degree, with texts that have been incorporated into the various versions of this report. At the risk of not mentioning all of them, it should be noted that the first chapter (“The starting point”) is based principally on the contributions of Max Hernández, Cristóbal Aljovín and Gonzalo Alcalde, while the second chapter (“Peru in the international context”) is based on work carried out by Francisco Sagasti, Gonzalo Alcalde, Giselle Velarde and Eliana Chrem. Chapter 3 (“Productive transformation and competitiveness”) was prepared on the basis of a working document written by Carlos Paredes, with contributions from Julio Guzmán, Álvaro Quijandría and Silvia Charpentier, as well as a series of sectoral reports originally prepared by Valery Fry, which were updated and expanded by Guillermo Felices, with additional contributions from Ricardo Fort, Fernando Prada and Álvaro Espinoza. The fourth chapter (“Equity, integration and social justice”) incorporates contributions from Javier Iguiniz, Jürgen Schuldt, Alejandro Afuso, Cecilia Olaechea and Carla Saenz, as well as the results of studies carried out by Gonzalo Alcalde and Francisco Sagasti. Chapter 5 (“Management of the environment, natural resources, science and technology”) incorporates material prepared by Silvia Charpentier, Jessica Hidalgo and Alberto Pascó Font, as well as contributions from Juana Kuramoto, Úrsula Casabonne and Jorge Chávez Granadino. The sixth chapter (“Territorial organization and physical infrastructure”) was based on work carried out by Jorge Chávez Granadino, Úrsula Casabonne and Fernando Prada.

The seventh and longest chapter (“Institutional reforms and democratic governance”) is based principally on a series of studies carried out over the years and particularly on the first Agenda: PERU report, Democracy and good government, written by Francisco Sagasti, Pepi Patrón, Max Hernández and Nicolás Lynch. Other extremely valuable sources were the studies on reform of the State, whose main contributors were Antonio Gonzales Norris, Augusto Álvarez Rodrich, Claudio Herzka, Jaime Johnson, Elena Conterno, Verónica Zavalá, Luis Pásara, Francisco Eguiguren Pratli, Fernando Tuesta Soldevilla, Marlene Castillo, Fernando Gubbins, Nicolás Lynch, Francisco Sagasti and especially Gustavo Guerra-García. Fernando Prada and Úrsula Casabonne helped complete the material required for the writing of this chapter.

Chapter 8, (“Culture, identity and values”) was based on the writings of Max Hernández and Cristóbal Aljovín; Pepi Patrón, Dana Cáceres, Luz María Garrido-Lecca y Fernando Prada also
contributed. The final chapter, ("The next steps: toward putting the strategy into practice") is based on a working document prepared by Manuel Córdoval, on reports by IMASEN and on contributions from Max Hernández.

In addition, many people who participated in the events organized by Agenda: PERÚ contributed with notes and texts which were subsequently revised and incorporated into the corresponding chapters. Throughout the preparation of this report, we have enjoyed the collaboration of Gonzalo Alcalde, Carla Saenz, Fernando Prada, Úrsula Casabonne, Eliana Chrem y Fernando Hesse, who acted as assistants and aides to the coordinator. Fernando Cortez and Roberto Elguera took charge of the organization and oversight of the working documents and the statistical material.

Sara Mateos was responsible for the difficult task of the final edition, while Óscar Fernández and Mario Popuche de APOYO Comunicaciones oversaw the publication of the first edition in Spanish. Lidette Brenes gave editorial assistance.

The administrative support team comprised, at different times, María Inés Bello, Patricia Alcócer, Dana Pulache and Paola Fuster. In addition, the team received help on specific points from Rosa Vigil and Francy Vega, while Héctor Monteverde oversaw the financial, and Ricardo Yori the legal, aspects. Luis Huertas gave invaluable logistical support.

Since this report includes such a large number of contributions from a variety of people, it was impossible to prepare an exhaustive bibliography of all the sources consulted and used. For this reason, the bibliography at the end includes only the basic material prepared for Agenda: PERÚ; almost all the references are to be found in the tables and boxes.

As is to be expected in this sort of document, the reader will notice some variation in style and the way that the different chapters have been written. This is sometimes due to the fact that they were prepared at different moments throughout the period of a year, but more often the variations arise from the bringing together of material produced by a large number of collaborators. The decisions on what information should be included in the text were taken in the main by the coordinator, in close consultation with other members of the Agenda: PERÚ team.

It only remains for me to thank all those who generously gave of their time in the events organized by Agenda: PERÚ, as well as the working team, the consultants and the collaborators who have made this report possible. We are also grateful to the institutions, companies and individuals who provided financial support for our work. They are mentioned by name at the end of this publication.

Lima, November 2000

Francisco Sagasti
Report coordinator and co-director of Agenda: PERÚ
Part One

INTRODUCTION
AND CONTEXT
CHAPTER ONE

THE STARTING POINT

The Peruvian dream calls upon young people to give it life, upon those who study its different aspects to convert it into a plan, and upon public opinion and awareness to turn it into a proposal.

Jorge Basadre
LIFE IN PERU: CRISIS AND PROMISE

"Independence was won accompanied by the wide-ranging promise of a prosperous, healthy, vigorous and happy life. The terrible thing is that, here in Peru and 120 years later, that promise has still not been realized," wrote Jorge Basadre more than five decades ago. To Basadre's judgment we could add that Peru, throughout its history, has wasted a number of opportunities for advancing towards prosperity and wellbeing for all. On the threshold of a new century and a new millennium, twenty years before the bicentenary of Independence, we have still not honored the promise of "the Peruvian dream."

On a number of occasions in the past half-century the international situation has been favorable for the Peruvian economy, both in terms of foreign investment flows and in the export of raw materials (sugar, copper, silver, lead, zind, fishmeal, oil, gold). We have experienced periods of significant economic growth. In addition, a number of times we have had democratic governments which initially counted with legitimacy and wide popular support. Had these opportunities been seized, we would now be suffering less poverty and unemployment, and have democratic institutions capable of guaranteeing good governance and an efficient, competitive economy.

The list of lost opportunities includes, among many other things, the agrarian reform which was not carried out in a gradual and orderly way at the start of the 1960s—a time when the "latifundio" could have been eliminated without incurring huge economic and social costs. Similarly, even though the National Research Council was set up at the end of that same decade, over the past forty years we have failed to invest in a sustained manner in the development of scientific and technological capabilities. The list also features the fishing crisis of the early 1970s, a consequence of the over-fishing of anchovy and the failure to anticipate the impact of the climatic phenomenon El Niño.

From the political perspective, we lost another opportunity after 1985 when the government of Alan Garcia – which started out amid great popular support and in a favorable external environment – proved unable to curb terrorism and adopted policies which led to economic chaos. Something similar occurred from 1995 onwards when President Alberto Fujimori, re-elected with a high percentage of the popular vote and in a highly propitious economic environment, concentrated his efforts on attaining a second presidential re-election instead of seeking national agreement on a development strategy and the consolidation of institutions which would guarantee the execution and sustainability of such a strategy.

One of the consequences of this half century of lost opportunities is clearly illustrated in Figure 1.1. Per capita gross domestic product (GDP) reached its highest level in 1975; from then and for the next 25 years the overall trend has been downwards, with occasional upturns. This reduction in levels of prosperity is the result of not having adopted appropriate measures from 1950 onwards, and of the internal difficulties of the last quarter-century. In consequence, 55% of Peruvians born after 1975 have experienced only declining levels of prosperity.

Why did we miss these opportunities? Why has the Peruvian dream not been fulfilled? The reasons are ancient and deep-rooted, stretching back many centuries. The Spanish conquest of the Inca empire is Peru's fundamental trauma: it created a lasting social gap between victors and vanquished. Through three centuries of colonial life Peru lived under the social, economic and political order which emerged from that original rupture. More than 175 years of Republican existence have thrown into relief the vast difficulties which Peru has faced in becoming a socially, economically, politically and culturally integrated nation. To date, we have been unable to tame the harsh geographical reality of our country, to achieve a better standard of living for all Peruvians and adapt to an increasingly turbulent international context.

The tempo of change in Peru has accelerated in recent decades. At the same time, society has un-
The old social order collapsed without breakdown and fear throughout the population and acted as powerful solvents, leading to social disintegration and institutional anarchy.

Thanks to decisive government action and enormous sacrifices on the part of the population, particularly the poorest sectors, in the early 1990s it proved possible to stabilize the economy and defeat subversion. Nevertheless, these advances did not constitute a great leap forward. Inflation disappeared but economic growth (unstable and biased) did not translate into significant improvements in living standards for the majority of Peruvians. Terrorism was eliminated, but crime levels rose and we were unable to establish a peaceful society. Ten years of sacrifice – during which half of the population has remained below the poverty line and almost two-thirds of the workforce has been unemployed or underemployed – has generated a sensation of discouragement and impotence, of frustration and resignation: it has made us doubt whether our situation can improve.

All this leads to the polarization of political life, promotes intolerance and restricts the chances of reaching agreements and working together: that makes it very difficult to build democratic institutions which can guarantee good governance and give continuity to development policies. With unaccustomed severity, Jorge Basadre talked of the "desertion of the elites" in reference to the historic incapacity of political leaders to successfully lead our country down the path to its future.

But throughout history we have also witnessed the stubborn commitment to the future that is characteristic of Peruvians. This is evidenced in a notable capacity for resistance, a strength of character tempered by adversity, an enduring reaffirmation of the hopes of a better life and a rebelliousness which flowers from time to time to question the direction which has been chosen.

Agenda: PERU’s work throughout the country over the past seven years has allowed us to discover the existence of a ferment of renovation, a desire for change and progress: these elements were to

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**FIGURE 1.1**

**Population growth and per capita GDP trends**

Over the past fifty years, per capita GDP expressed in constant soles shows two very clear trends: between 1950 and 1975 it rose steadily, while in the last quarter-century it fluctuated widely, although the overall trend was downwards. The backdrop is the continuing rise in population numbers; thus, Peruvians born since 1975 – who represented some 55% of the total population at the end of the 20th century – have known only economic instability and a constant downward trend in their level of wellbeing. In addition, as a consequence of the hyperinflation of the late 1980s, official per capita GDP figures for the past few years have registered levels higher than they were in reality. Adjusting those figures accentuates still further the downward trend for the past quarter century.


![Graph showing population growth and per capita GDP trends](image)

find their most notable expression in the youth protests which began spontaneously in mid-1997, and in the regional leaderships which have sprung up in various parts of the country.

One can appreciate efforts to rebuild the fabric of society – above all in grass-roots organizations and in local governments – and to create islands of efficiency and representativity in a series of public, private, and civil society institutions. At the same time, there is a widely-shared desire to reaffirm democratic practices and to build solid institutions, to permit Peruvians to live in peace and harmony.

There are different, contrasting ways of interpreting our complex reality at the end of a century and a millennium. At one extreme are those who consider that the 1990s changed history and put Peru on the path to modernity and development. At the other are those who believe the situation is worse than ever, that we are on an irrevocable road to disaster. A more moderate evaluation would be that we have emerged from the profound crisis which destroyed the very foundations of our economy, which caused the collapse of the State and threatened the security of all, while arguing that we have paid a high social cost for the achievement of a precarious economic stability, that state institutions are disarticulated and lacking in legitimacy, and that the anguish of poverty and citizen insecurity have replaced the fear of terrorist violence.

We are, yet again, only at the starting point on the road to prosperity and wellbeing: the persistent clamor for a shared vision of Peru’s future suggests that we still do not know which direction to take. Agenda: PERU’s diagnosis of the problems of democratic governance and social and economic development (Democracy and Good Governance, 3rd edition, corrected and expanded, Peru Monitor/Agenda:PERU, 2001) identified the urgent necessity of adopting a perspective of the future and designing a broad and flexible development strategy capable of providing a framework for the principal political decisions which need to be taken in the coming years, as well as articulating a national consensus on what our country can and should be.

This report is a response to that concern, and presents the results of Agenda: PERU’s efforts to articulate a strategic vision and put it into practice. Into it have gone a large number of bibliographical sources, the contributions of many students of Peruvian reality, as well as a series of studies carried out by Agenda: PERU’s own team, which over the past seven years has consulted experts and citizens in many areas of the country (see Annex).

**EQUATION OF THE IDEA AND PRACTICE OF DEVELOPMENT**

While the promise of a happy and prosperous life has remained unfulfilled in Peru, the concepts which have driven the efforts of poor countries to improve the living conditions of their inhabitants have evolved and changed. The idea that humanity advances continuously – inherited from the Enlightenment and from Positivism – prevailed until the early part of the 20th century. Later, however, the anguish and desolation associated with the First World War, with Fascism, the Great Depression, the Stalinist repression in the Soviet Union, the Holocaust, the Second World War and the bombing of Hiroshima and Nagasaki plunged faith in the progress of humanity into serious doubt.

At the end of the Second World War, with the victory of the Allied Forces, a new optimism and confidence in the future emerged; the idea that the human condition could be improved via premeditated interventions recovered its force. New instruments for managing the economy, new techniques for planning investment and innovations in the organization of production, and the scientific and technological advances associated with the Second World War underpinned this renewed confidence in the potential and the efficacy of human action.

One of the key expressions of this renewed faith in human progress was the idea of development, understood as the process which makes it possible, in the course of a generation, to reach the standard of living which rich Western countries had taken three or four generations to achieve, yet without incurring the high social costs that those countries had to pay, or which they exacted from others (slavery, colonialism, exploitation of workers, women and children). The economic successes of the first three post-war decades – the global economy grew faster between 1950 and 1973 than in any other period of history – reinforced faith in the possibility of development, facilitated the expansion of international cooperation and helped raise living standards across most of the planet.

Nevertheless, the concept of development immediately fell hostage to the Cold War rivalries between West and East, between the United States and the Soviet Union. Two very different paths were on offer for the achievement of prosperity: one based on market economics and a liberal democracy, the other based on centralized economic planning and a one-party political system. In the following decades each of these economic and political systems sought to publicize its successes, attempting to attract to it
the poor countries, many of which had only recently emerged from colonialism.

Ideas on how to promote development continued to change, especially in the West, and the period of generalized economic crisis which followed the golden post-War years (the 1980s were, for Latin America and other regions, a lost decade) provoked a profound rethink of development strategies and approaches. As a result, over the past twenty years, development theory and practice have laid greater emphasis on its institutional and social aspects: these include the reduction of poverty, the efficiency of the State, democratic governance and the prevention and resolution of conflicts.

The fall of the Berlin Wall, the economic and political collapse of the Soviet Union and the failure of centrally-planned economies eliminated one of the two alternative paths which poor countries were being offered. At the same time, the disappearance of the socialist way threw into sharper relief the differences which exist among various market economies. For example, the North American version of capitalism places emphasis on competition between individuals and short-term financial gain for business, while it restricts the range of services provided by the State. By contrast, the German and Japanese versions emphasize collective action and long-term entrepreneurial performance; they also envisage a wider range of state intervention in the provision of public services.

Basing themselves on the values and cultural attitudes which govern the behavior of businesses and their relation to the State, other studies have identified seven different "capitalist cultures" – corresponding to England, Holland, Sweden, the United States, France, Japan and Germany – and a few Asian variants. As economic competition intensifies between key countries and regions within the global economy, each one puts forward its own specific version of capitalism as the model which others should follow. All of which proves that there exists a broad range of possibilities for the definition of the roles which should be played by the State, the private sector and civil society organizations within the general framework of a market economy.

Currently, the idea of development is being reconsidered on the basis of concepts such as "life opportunities," "capacities" and "functionings" – all in reference to the options available to people to choose their life-style and decide their future. These concepts, which are rooted in humanist ideology (Box 1.1), place the human being as the center of concern in the pursuit of prosperity and wellbeing; they aspire to provide all individuals, in the present and the future, with the same opportunities to develop their potential to the maximum.

What, then, is the end result of half a century of attempts to promote development in its various forms? What can we learn from the experience of others in the fulfilment of the Peruvian dream? The efforts of the past half-century to improve the human condition in various parts of the globe have been neither a huge success nor a total failure. A handful of countries have managed to reach the standards of living enjoyed by the industrialized countries within a generation (particularly in South-East Asia) and many social indicators – life expectancy, nutrition, educational levels and others – have improved significantly in all regions of the world. Yet, at the same time, the absolute numbers of poor have increased during the past two decades over almost all the globe; inequalities of income and opportunities have been exacerbated and there has been a marked deterioration in the environment.

Both successes and failures provide valuable lessons on how to accelerate economic growth and improve social conditions. Perhaps the most important refers to the key role played by institutions. Institutions encompass patterns of behavior, long-term social relations, organizations and operating procedures, formal rules and regulations, and established habits of interaction between individuals and groups: together, this all makes up the fabric of society, creates relations of confidence, allows the establishment of shared commitments and provides a basis for collective action. The existence of solid institutions provides stability and permits the anticipation of results – necessary pre-conditions if human actions are to be effective and if individual and group objectives are to be achieved. We have also learnt, above all since the fall of the Berlin Wall, that institutions which are flexible, participative, decentralized, pluralist and capable of taking account of different opinions and viewpoints have a greater chance of responding adequately to the growing and changing demands of the fractured global order which characterizes our times (Chapter 2).

In the political arena, institutions associated with democratic governance have proved the most effective for channeling, processing and responding to a broad and varied range of social demands, primarily through intermediary institutions which act as links between citizens and centers of political power. In addition, a democracy which functions well permits orderly change in the exercise of power via regular elections, while avoiding the excessive concentration of power by establishing controls and counterbalances on the exercise of authority and political influence. These characteristics have made
democratic governance a powerful force for the maintenance of peace and promotion of development.

In the economic field, institutions associated with markets and competition have proved themselves the most effective in encouraging economic growth and in improving behavior in many areas of human activity. However, those societies which are capable of achieving a balance between competitive pressures on the one hand, and social solidarity on the other, have enhanced possibilities of raising the living standards of the entire population and avoiding the exclusion of the weakest and most vulnerable.

There is a strong interrelation between democratic governance, economic growth, the reduction of extreme inequalities and the existence of networks of civic and social commitments. These elements combine to reduce the probability that groups or individuals affected by economic, social and political exclusion feel that “have nothing to lose” and decide to turn to violence to change their situation.

At the same time, the majority of problems and challenges which developing countries face today – for example, avoiding environmental deterioration, maintaining economic stability, reducing poverty and preventing violent conflict – no longer have solutions which are purely local or national. Improvements in standards of living and the creation of opportunities for all depend increasingly on the cross-border interchange of goods, services, knowledge and information. As a result, institutions, organizations and businesses – whether regional, international or transnational – now play a key role in the development process.

Since the end of the Cold War, we have become aware that, for the greater part of the past half-century, culture, religion and ethnic loyalties have been omitted from the concept and practice of development. Nevertheless, and beyond what they require for basic survival, men and women are guided by ethical and moral impulses. Non-material values and aspects of human activity are fundamental for the affirmation of the capacity for action of both the individual and the group, for the creation and running of institutions and for the success or failure of efforts to achieve prosperity and wellbeing. We have also learnt that cultural identities, ethnic loyalties, religious affiliations and ethical principles can enter into conflict with and undermine these efforts. This underlines the importance of tolerance as a pre-requisite for the incorporation of other non-material values and considerations into the concept of development. The paradoxical lesson which can be derived from this is that, if we are to accept the diversity of value systems and cultural perspectives, we must of necessity first recognize the primacy of certain universal values – such as tolerance, respect for the opinions of others and the freedom to express divergent viewpoints (Chapter 8).

**BOX 1.1**

**Humanism and development**

From the dawn of modern times, improving the human condition has been closely linked to the idea of progress. For this reason, humanist ideology has been of fundamental importance for the advance towards a broader and more integral conception of development. Assuming a humanist posture implies adopting an attitude of profound respect for man and woman, an affirmation of the intangible value of human life and the human condition. This respect is based on the recognition that each human being is an end in him or herself – never the means towards another end. Humanism considers each and every individual who makes up a social group as equally valuable and irreplaceable.

Humanism is far more than a simple attitude: it is also a call for change, for the transformation of society into one where justice and equality reign, where each human being can be seen as an end in himself. For this reason, humanistic development necessarily implies the elimination of poverty, ignorance and any other source of inequality. In addition, it presupposes an attitude of cooperation and solidarity which permits support for the ultimate aims of others in order that each of the individuals who make up society can be fully realized.


**Futures of the past and shared aspirations**

If Peru is to cease being the land of lost opportunities and take advantage of the experiences of other countries, we must first define the direction our development should take and articulate a shared vision of what we desire, as a nation, to become. Peruvians have a fertile imagination and a long history of visions of the future (Box 1.2); to date, however, we have been unable to bridge the gap between our aspirations and our achievements. Worse still, in periods of acute crisis such as the one we have been living through for the past two decades, we lose the long-term perspective. Present difficulties, daily hardships and uncertainty leave little room for thoughts of the future. However, exercising one’s imagination in a creative and disciplined manner is a necessary pre-condition for progress. To advance along the path of prosperity and wellbeing we must share, to a greater of lesser degree, a vision of the future capable of motivating the majority and of mobilizing joint efforts.
A shared vision of the future can be defined on the basis of aspirations common to all citizens. In recent decades the idea of a National Project with a long-term horizon has been proposed principally by the Center for Advanced Military Studies, CAEM (Box 1.3). Recent interpretations of this idea envisage the National Project not as a static collection of proposals but rather as a dynamic yet gradual process of identification and collective definition of medium and long-term goals: these would form the basis for short-term operating consensuses.

An exercise carried out in the mid-1980s * to determine what kind of a future Peruvians wished for, allowed its authors to identify a blend of aspirations and values that was shared by a wide range of Peruvians. They were: national integration, understood as the forging of an identity, the recognition of others as equals and a collective commitment to the future of Peru; equality of access to goods and services, including the satisfaction of basic necessities, the equitable distribution of wealth, equal rights for men and women and opportunities for study and work for the whole population; respect for diversity, implying acceptance and tolerance of different lifestyles and the promotion of the cultural diversity which characterizes Peru; full development of the individual, to be obtained via recognition of personal effort and support of the community, solidarity as a component of social cohesion, the search for excellence and the training of citizens capable of deciding for themselves; and citizen participation, embracing the intervention of the population at large in governmental decisions which affect them, transparency and access to information in the public sector, as well as a fully functioning democracy. Also identified were the aspirations to achieve balanced

*Patricia McLauchlan de Arregui and Laura Acosta de Quijandria, Peru 2010: El futuro ya no es como antes, Lima, GRADE, 1988

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**BOX 1.2**

**Futures of the past**

*The concerns of the Colony.* "A new world needs new ideas," was the early 17th century comment of Victorino Gonzales Montero y del Aguila, Marquis of Piedra Blanca and Mayor of Lima. For don Victorino, Peru was a kingdom which had a "government with no laws, with idle ministers, an impoverished treasury, fertile but uncultivated lands, where knowledge is underestimated, where the military has no sense of honor, where cities have no nobility, justice has no moderation, where gardens are for profit and honesty is considered madness..." In order to instil morality into the colonial administration, he proposed appointing Churchmen as viceroys and information gatherers ("vidores") and to develop the economy he suggested creating "mixed" companies with both State and private participation. Gonzales Montero used to say that Peru's future was in mining, since all regions of the country, "from the cold, barren wastes to the warmer valleys speak to us of their wealth of metals."

At the end of the 18th century, the intellectual Jose Baguiano y Carrillo argued strongly for a democratic future for Peru in which authority should be exercised in accordance with the will of the people: "Even what is good ceases to be so if it is established and founded in opposition to the votes and the opinions of the public...deceitful tyranny has always sought to improve mankind against its will." Around the same time, Alonso Carri de la Vadera – a nobleman and renowned conservative – suggested agriculture and trade reforms and proposed the elimination of the terms "indio" and "mestizo." "Let's drop the pretense and admit that there are no "mestizos," which is the most nearly true – or else admit that we all are."

*A country born with a plan.* Written in 1810 and published in 1823 (dedicated to Bolivar), Lorenzo de Vidaurre's Plan del Peru reflects the bubbling enthusiasm which characterized the birth of the Republic. With it, Peru enjoyed the rare privilege of possessing a Utopian vision even before Emancipation. A firm believer in the omnipotence of reason, Vidaurre not only criticized the vices of the colonial administration – of which he was part – but he also proposed reforms for the future. "All I am doing here is building my Republic," he said.

Vidaurre's work is rich in suggestions for the future. A convinced liberal, he stresses the need to assist foreigners who are interested in promoting local industry. "Why should ordinary wool and vicuña fiber be exported to Europe so that Europe can sell back to us the cloth which we could produce ourselves? If cotton is so abundant, why should we buy muslin and gauze from China?...If we have copper mines, isn't it a shame that we don't have the best weapons in the world?...We lack factories: so let's open up the ports to foreigners and their families, let's allow in anyone who can be useful..." Vidaurre makes suggestions on the clergy, the role of the State, universities, transport, local government and many other aspects of Peruvian life in the future. He does not omit the issue of national defense but, with a broad continental vision, he proposes "...that America should abhor war as if it were a plague, but in times of peace it should so dispose and prepare itself that no belligerent nation would dare to cast insults."

*Civilianism, democracy and development.* At the end of the 1860s, Manuel Pardo and the associates of the Revista de Lima wrote a speech opposing "caudillismo" which adopted an all-inclusive vision of politics and promoted citizen participation. They pronounced themselves in favor of
The geographical distribution of economic, social and political activities; an autonomous Peruvian foreign policy in the changing international context; and social criteria in the management of technology, particularly with reference to advances in information technology.

The revelation of these aspirations made it possible to identify – more than ten years ago – three scenarios for an ideal Peru in the year 2010. The first, “modern Peru”, emphasizes individual action, the modernization of the country, the achievement of shared values and the full insertion of Peru in a globalized world. The second scenario, “federal Peru”, stresses cultural, ecological and productive diversity, brought together within the framework of a federal system which would link the different regions while leaving room for each one to follow its own path. The third scenario, “community Peru”, places emphasis on social solidarity, community action, direct participation of the population at all levels of decision-making and decentralized action at local level. At the same time, a handful of illustrious thinkers and academics who have influenced generations of Peruvians have also given their own views of the future (Box 1.4).

Agenda: PERU undertook a similar exercise towards the end of the 1990s: it confirmed that the majority of the common aspirations were still alive. However, unlike the previous study, it identified only one ideal scenario for the Peru of the first decades of the 21st century. In addition, it found changed priorities and a different emphasis on aspirations, as might be expected in view of the differing situations of the country at these two moments of history. Today’s vision of Peru – on the threshold of a new century – places greater emphasis on equality of opportunity and on the reduction of poverty, frequently expressed in terms of acquiring a stable and well-paid job. Greater public education and emphasized the importance of decentralization (they promulgated a law granting local governments their own sources of income). Pardo defended private enterprise, but also declared the need for the State to be a promoter and have economic independence. His concept of the State and democracy are summed up in the slogan: “the practical republic.”

The predictions of the dark hours. The years following the 1879 war with Chile were a bad time for making projections about the future. However, the problems of the nation received more attention than at any time since Vidaurre had conceived his plan. Manuel Gonzalez Prada – an anarchist, a fiery orator and a brilliant essayist – incisively questioned the established order, condemning it to disappear in the purificatory flames of the fires to be lit by the oppressed. A critic of the ruling classes and a positivist with blind faith in the new sciences, Gonzalez Prada attacked improvisation and empiricism, but he did not come up with proposals for Peru’s future.

A spark of optimism. Francisco Garcia Calderon, another Peruvian who contemplated his country from the banks of the Seine, rose up in opposition to the discouraged and moralistic vision of Gonzales Prada. After Vidaurre – who lived almost a century before – the self-taught Garcia Calderon has the clearest intuition of the future. “El Peru Contemporaneo”, published in 1907, argues that “investigation of the past should culminate in an opinion on the future.” From 1895, he said, “an ideal has been materializing”: there already exist “elements to sketch out the destiny of Peruvian reality.” But first “is necessary the passage of time, so that new men can emerge, and the national consciousness can undergo change.”

Peru: an heroic creation, bread with freedom, promise and possibility. The 1920s and 1930s were dominated by Jose Carlos Mariategui – for whom the future of Peru lay in a socialism that would be “neither a copy nor a mold but an heroic creation” – and Victor Raul Haya de la Torre, the founder of the Apra party and the proponent of an economic nationalism oriented towards the benefit of the lower classes. Alongside were others like Jose de la Riva Aguerro and Victor Andres Belaunde. But it is Jorge Basadre who most clearly expresses the preoccupation with the future of Peru. “Peru: Problema y Posibilidad”, published in 1943, better than any other Peruvian analysis in this century, combines a retrospective vision with social diagnosis and projects it to the future.

National Project – the conquest of Peru by Peruvians – a different future. During the 1950s, the main attempts to define a vision of the future for Peru are associated with the National Project put forward by the Center for Advanced Military Studies, CAEM. Its central concern was to create a National Project capable of orienting Peru’s destiny for several decades to come. The ideas of Fernando Belaunde Terry contained in his book “La conquista del Peru por los peruanos” proposed a vision of the future which is deeply rooted in Peru’s historic and cultural identity. The creation of the National Planning Institute (INP) at the start of the 1960s marked the start of official attempts to introduce a forward-looking perspective into governmental activity. However, a series of internal problems and its inability to adapt to a new context led to the discredit of the INP: the capacity to anticipate the future and to design development strategies was lost. The crashing failure of the government of Alan Garcia – who had, before assuming the presidency, written a book entitled “Un futuro diferente” – provoked the ultimate discrediting of efforts to anticipate future situations and to carry out strategic planning for the development of the nation.
weight is also given to decentralization, the peaceful resolution of conflicts and healthy democratic institutions.

**Visions of the Future Peru and Notions of the Common Good**

The vision of the kind of Peru we desire for the end of the second decade of the 21st century, on the eve of the second bicentenary of Independence, points in the direction of an **equitable, pluralist and integrated society** where extreme inequalities, poverty, and racial and gender discrimination have been significantly reduced: it is a society where the ethnic, social and cultural diversity which characterizes our country is accepted and considered as positive. Social relations would be based on solidarity: those who are in a better economic situation, or who have had the privilege of a good education would assume the responsibility of contributing to improving the living standards of the less fortunate. There would be consensus over the need for the State, the private sector and civil society to act together to ensure a minimum standard of living compatible with the human dignity of all Peruvians and to guarantee a more equitable distribution of opportunities and wellbeing.

How can this be achieved? There follows a scenario for this desirable future as it emerged through the broad consultation process carried out by Agenda: PERU over the past seven years.

- **A prosperous, efficient and competitive economy** has permitted the generation and accumulation of wealth, channeling internal savings and complementary resources from abroad into productive investment, which has grown in a significant and sustained manner. The vulnerability of the economy to external shocks has been reduced and sustained economic growth has led to more job creation, particularly in agriculture, industry, tourism and construction. The internal market has expanded considerably as a result of higher incomes for the majority of the population, of improvements in the quantity and quality of jobs, and of a much fairer distribution of income.

The development of productive activities and services at local level, supported by institutional innovations, has created new opportunities to improve the quality of life throughout Peru. Informality has been substantially reduced, the economy has diversified, Peruvian businesses have consolidated and oriented themselves to markets abroad, while exports have increased and now include a significant percentage of products with high value added and with a larger technological content.

- **An equilibrium between utilization and conservation** permits the sustainable use of natural resources to be guaranteed, especially in fishing, forestry, agriculture and livestock farming. Peru's biodiversity has been studied, classified and protected, which has permitted the identification of new productive activities and the generation of sustainable ways for local populations to earn their livings. In addition, it has been possible to obtain financial compensation from the international community for the environmental services which the Amazon forests provide for the entire planet.

There has been a significant reduction in air pollution in the cities, and the waters of rivers and lakes throughout Peru; measures for recycling and adequate management of solid wastes have been put into practice. Businesses have significantly cut down their emissions of polluting gases, liquids and solids and they compete not only on the basis of lower

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**BOX 1.3**

**The idea of a National Project**

The National Project is the reply to what we should be, it is the sum total of our national objectives and the political strategy we should follow in order to achieve them. National objectives cannot be imposed but are based on the aspirations and beliefs which we Peruvians hold concerning the particular ends which society should attain. They should be present in the national consciousness so that the entire Peruvian nation can make efforts to reach them.

Sadly, we must admit that Peru has no National Project. It should be built upon national objectives. Yet, where are these objectives? Who is acquainted with them? Do the Peruvian people know them? Is it possible to support that with which you are not acquainted?

To date, we have not succeeded in becoming an integrated nation. We continue to be a nation in which the principles of community living are not properly established in our basic institutions, in our families, among individuals. We are a nation in which egoism, individualism and the lack of collective spirit still prevails.

The conception of the Project gives rise to the necessity of promoting a better interaction between the individuals and the groups which make up this society. A permanent dialogue between us is essential if we are to advance in creating a consciousness of the need for national objectives and a National Project. We must define in the clearest possible manner what type of integrated society we Peruvians should establish, setting out our national objectives not on the basis of personal whims but as a function of national sentiment and of Peruvian reality.

prices or better quality but also on the reduced negative impact their activities have on the environment.

- Peru has succeeded in developing and rapidly consolidating its scientific and technological capacities. A highly qualified and fast-expanding scientific community is carrying out research on issues of priority for the prosperity and wellbeing of Peruvians, while actively contributing to increase the store of international knowledge. Technological pluralism reigns, permitting the adequate application of a wide range of technologies – from the most advanced to the traditional and including combinations of the two – to the ecological, social and cultural conditions in which productive activities are carried out in different parts of Peru’s difficult geographical terrain. All this has created a system of national innovation which is highly dynamic, which generates continuous improvements in productivity and which spearheads the success of a broad range of businesses – from the largest to the smallest. It has also contributed to a significant improvement in the provision of basic social services to the vast majority of Peruvians.

- A better distribution of population, production and political power has permitted the more effective and balanced utilization of the national territory: this has notably reduced the degree of centralism of metropolitan Lima. Middle-sized and small cities have increased their participation in the life of the country. The decentralization process is based upon an important expansion, on the adequate maintenance of physical infrastructure (roads, railroads, ports, airports and irrigation systems), and on the provision of electrical energy which now reaches all populated areas.

Special emphasis on telecommunications development has meant that a telephone service – and thus, access to national and global information networks – has reached the vast majority of Peruvians: even in the smallest and most remote communities, they can now use Internet via public cabins. The telecoms network has also permitted the development of interactive tele-education, an improvement in the provision of basic social services (preventive health, nutrition, literacy and so on) and the organization of a wide variety of training programs for young people and adults.

- Democracy and democratic institutions have been consolidated, and the rule of law – with all the freedoms that this implies – has prevailed in uninterrupted form: the exercise of political power has alternated. A series of institutional reforms begun in the early years of the 21st century has succeeded in bringing stability and efficiency to public, private and civil society institutions: this ensures that the human rights of all Peruvians are respected. Supported by modifications in the Constitution, a new division of the tasks of the State, the market and civil society has emerged: this has permitted a recomposition of the fabric of society, as well as the articulation of initiatives between the three sectors. Government action is more transparent, the most pernicious forms of corruption have been eliminated, citizen participation has been increased and citizen security has improved in all areas.

- The executive branch and government agencies have become more efficient, bureaucracy has been reduced and a professional career in the public service has been created which is based on personal merit. Congress has become a prestigious institution which properly and democratically represents the diverse interests of Peruvian society and which impeccably fulfills its legislative and watchdog functions. The Judiciary has succeeded in establishing its autonomy vis-a-vis the other powers of State, in guaranteeing equality before

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**BOX 1.4**

**A vision of Peru**

I see Peru slowly recognizing its racial, cultural and historical misfortune: this slow and almost shameful recognition corrects a tragic historical error. My vision of Peru embraces "mestizos"; town and country-dwellers, businessmen, educators and students.

History has spoken of our riches. The expression "it’s worth a Peru" was a reference to colonial Peru that contained a large slice of fantasy and admiration for the adventurous spirit of the "conquistadores." The harsh exploitation of the indigenous population was not taken into consideration nor even mentioned. When our ancestors designed the national coat-of-arms, the chose the cornucopia – the symbol of abundance – to represent Peru’s mineral wealth. This gave generations of Peruvians a certain security with regards to Peru’s riches.

But experience, reflection and history speak to us in another tongue: Peru is a poor country. Agricultural production is not sufficient to feed our people, the marvels and enchantment of the jungle lie in the fact that it is unknown and – in the economic history of Peru – what has happened with guano and fishmeal tell us how careful we must be in management of our natural resources.

The truth is that the wealth of Peru depends on the gradual unfolding, in each successive generation, of the capabilities and the efforts of its men and women.

I have hope and belief in Peru because I know Peruvians: they are the subject and the object of my hopes. They have the firm desire to live, create, innovate, change and transform their country – despite uncertainty, despite all manner of limitations, changes, threats and insecurity in the face of the future.


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the law, in simplifying the administration of justice and in expanding the use of alternative procedures for the resolution of conflicts. The electoral system has guaranteed transparency and citizen participation in elections: Peru has thus achieved a stable political system.

- **A process of regionalization and decentralization** is underway which has gradually transferred a series of functions of central government to provincial governments and other local and regional institutions, ensuring that these possess the necessary representativity and managerial capacity to attend to the populations living in their geographical sphere of influence.

- **Private sector businesses and institutions operate in an efficient manner** and amply fulfil their function, which is to create wealth: they are stimulated in large part by the bringing into line of Peruvian legal and juridical norms with the new, more demanding and competitive global business environment. Large companies, both Peruvian and foreign, have developed a strong sense of social responsibility. Middle-sized companies have improved their managerial capacities, while many family-owned firms have transformed themselves into companies with a broad shareholder base: now operating in a more transparent and efficient manner, they have succeeded in accessing a wide variety of sources of financing.

Small businesses have improved their performance, largely due to the technical and financial assistance programs created by national, regional and local public institutions. Tax simplification and the benefits deriving from participation in state-sponsored programs (information on markets, administrative training, credit, technical support and so on) have encouraged a large number of small enterprises to abandon informality. Although micro-enterprise continues to be the refuge against unemployment, training and empowerment programs have permitted a growing number of micro-enterprises to generate profits, to save and invest, resulting in an improvement in the quality of life of those involved.

- **Civil society organizations have been strengthened** and now occupy an important place on the Peruvian stage. Grass-roots organizations – many of which started life as voluntary associations of women seeking food security – have transformed themselves into effective pressure groups which play an important role in local, regional and national politics. Professional associations are important interlocutors for the government and the private sector in their areas of competence. Business guilds maintain their influence and have adopted a perspective of solidarity with the development of the nation which transcends their own particular interests. The unions have recovered a role, defending the interests of all workers – not just those who are unionized – in a constructive attitude which aims to transform productive activities and improve competitiveness.

The evolution of the electoral system, the Congress, local governments, regional governmental and other public institutions has encouraged the emergence of strong political parties which are capable of efficiently articulating citizen demands. Parties have adapted themselves to the requirements of greater transparency, internal democracy and honesty; both government and opposition parties have adopted a responsible attitude towards the future of Peru.

- **Institutional reforms have also reached national security.** A series of public, private and civil society organizations participates actively and in a coordinated fashion in the tasks of personal, collective and citizen security. The armed forces have updated their doctrine of national security to include democratic governance as one of their basic concepts – alongside concerns for military capacity and socio-economic development. The army, navy and air force have gradually become professional services, obligatory military service has been eliminated, the number of officers and men has been reduced and the armed forces are genuinely under political control even though they maintain their autonomy in strictly military matters.

The national police force has been restructured and has managed to become more efficient and flexible. Remuneration has improved significantly and many of the duties of the police have been transferred to the ambit of local governments; in some cases, the municipal police has merged with the “serenazgo” or local vigilante service.

- **Values and attitudes have evolved** to the point where, by accepting Peru’s vast cultural diversity, people recognize they are all equal and appreciate that respect for differences is the basis for the construction of an identity which is simultaneously pluralist and integrated. A better knowledge and an increasingly broad appreciation of our rich historic cultural heritage – and of the form in which it is currently expressed in the arts and in other human activities – has strengthened this sense of national identity.

In a world that is ever more interconnected yet at the same time diverse, a new awareness of the
heterogeneity of the Peruvian nation and the experience of several centuries of the co-existence of different cultures, has become an advantage. Peru can now respond to the challenges of globalization, which demands the ability to deal with a wide range of spaces, times, perspectives, attitudes and languages to perform efficiently.

- Citizen rejection of terrorism and the indiscriminate repression of the last decades of the 20th century have led to a re-evaluation of the peaceful solution of conflicts and a clear rejection of violence in all its forms. Recognition that all are equal, access to true information about the victims of terrorism and repression and transparency in judicial proceedings have helped achieve a national reconciliation: Peruvians have been able to overcome their hatreds, forget their resentments and live in peace. The recovery and strengthening of such moral and ethical values as honesty, solidarity, austerity, truth, labor and freedom – together with a renewed vocation for service – have improved co-existence and quality of life for the great majority of Peruvians. The consolidation of democratic values is most clearly expressed in the rejection of authoritarianism in the exercise of political power, in recognition of the importance of dialogue and consensus, and in an increase in citizen participation in political life at all levels.

This description of a desired future represents a preliminary attempt to define a shared vision of what our country should be at the end of the second decade of the 21st century. In defining the vision, we have tried to present a future which is much better than the current situation, but without falling into unattainable fantasies that are too far distant from what we are today. Taken together with the opinions on lost opportunities and changes in the concept of development over the past fifty years, this vision provides a general orientation and a series of criteria to guide development efforts for the next two decades. In addition, it suggests the way to reach what we might term the “common good” of Peruvian society:

**Expand as far as possible the options which all Peruvians possess to imagine, design, choose and freely realize their own life projects. This multiplication of options and possibilities of achieving them is based on a shared vision of Peru’s history and future, on a national identity which is pluralist and integrated, on the increase of prosperity and wellbeing for all Peruvians, on a commitment of solidarity and assistance to the disadvantaged, and on the seizing of the opportunities offered by today’s emerging society which is information and knowledge-based.**

**DEVELOPMENT STRATEGY AND DEMOCRATIC GOVERNANCE**

The challenge we face in the transition to a new century consists not simply in imagining a better Peru, but in designing and putting into practice a social learning process: in this way we can move away from the current situation and, taking our limitations into account, move closer to what we desire for our country. The development strategy for Peru in its transition to the 21st century which this report presents has the central objective of promoting dialogue and debate and of creating the consensuses which are an integral part of the social learning process. Incorporating a large variety of contributions and starting from a shared vision of the future, the coordinators of this report have analyzed the evolution of the international context and its consequences for Peru (Chapter 2); identified strategic directions and options for mobilizing development efforts (Chapters 3, 4, 5 and 6); proposed a series of institutional reforms to guarantee the viability of the strategy (Chapter 7); examined the changes in culture and values which underpin the proposed strategy (Chapter 8); and defined the actions to be undertaken in the medium term for the strategy to be put into practice and to approach our vision of the future.

To employ a textile metaphor, the design of a development strategy can be seen as the process of reconstructing the social fabric of the country. The international context in which Peru is set is like the stretcher which holds the threads that make the fabric. Four strategic directions (productive transformation and competitiveness; integration, equity and social justice; environmental management, science and technology; management of the national territory and physical infrastructure) are the strands which make up the “weft”. A series of four institutional reforms (reform of the state, of the private sector, of civil society and of the security apparatus), all of them oriented towards the consolidation of democratic governance, are the threads which comprise the “warp”. National identity, values and citizenship will be the fibers of the threads, the pattern of the weave that binds them together and the designs and the colors which the reconstructed fabric of society reveals to us. This metaphor underlines that it is impossible for us to progress towards our vision of the desired Peru simply through “technical” advances in each of the strategic directions without, at the same time, advancing in the institutional reforms which will guarantee democracy, good government and the viability of the strategy: it is not possible to weave a fabric with the “weft” alone.

The vision of the future and the development strategy are proposed in general terms and comprise
a frame of reference. They leave ample room for complementary perspectives, regional and sectoral: these, in turn, could be converted into starting points for strategic planning processes in more specific areas. In addition, the strategy does not reach the level of detail which could be required of a government plan. The idea has been to propose a conceptual structure capable of placing and articulating the numerous development initiatives which are emerging in different parts of Peru. The proposals contained in this report can be considered as an input for other initiatives which, in turn, will enrich the content of the proposed strategy. Using what we have learnt about studies of the future and strategic planning (Box 1.5), we must disseminate throughout Peruvian society the capacity for strategic thinking with a vision of the future.

Agenda: PERU’s perspective is that of a civil society organization whose objective is to promote dialogue, debate and the formation of consensuses on issues critical for development. The consultation process carried out over the past few years has also allowed us to incorporate the opinions and viewpoints of government officials, politicians, private sector representatives, grass-roots leaders and ordinary citizens. Nevertheless, we are conscious that the responsibility of articulating a vision of the future and designing a strategy for addressing it falls fundamentally upon the State, whose action in this area should transcend the perspectives of any specific government.

The political circumstances of the past few decades – which have been characterized by intolerance, polarization, violence and authoritarianism – have not encouraged successive governments to assume the responsibility of proposing policies of state that are based on a broad national consensus. If we are to advance towards prosperity and wellbeing for all Peruvians, it is imperative that the State and future governments fulfill their duty of promoting social learning process, articulating a shared vision of the future, establishing public spaces for debate, helping create consensuses and mobilizing willpower and energy in the common good. The proposals of civil society and the private sector play a very important role in the process of social learning, but they cannot replace the action of the state.

Getting a social learning process under way implies joining forces and building upon what others have done, seeking balance and conciliating with a variety of legitimate interests, defining priorities in a harmonious manner and articulating operating consensuses. Mutual respect and a willingness to reach agreement are essential pre-requisites for this. The inevitable differences and conflicts which accompany the process should be resolved in a democratic manner – without imposition or violence.

We should avoid political solutions that are apparently easy and stable but which nevertheless may quickly turn into dead ends. In particular, we must reject the authoritarian tendency which seeks a “firm and strong hand to solve problems” and which inevitably leads to dictatorial regimes where arbitrariness, impunity, fear and deceit prevail. When the democratic exercise of social responsibility is impeded – or when it is invested in a handful of self-selected proponents or in small groups which manipulate electoral processes and the State apparatus – the authoritarian exercise of power restricts citizen freedoms and hinders the process of social learning which is essential if we are to advance towards what we, as a country, wish to be.

It will be not possible, therefore, to put the strategy into practice nor advance towards the vision of a desired Peru without consolidating institutions and democratic practices in every area of national life. Only in this way shall we make a reality of the Peruvian dream.

CRISIS, STRATEGY AND PROMISE
AT THE START OF A NEW CENTURY

Peru ended the 20th century with a paradoxical combination of problems and opportunities. In spite of difficulties and unaddressed needs, the convergence of multiple crises in the past few decades could actually become the starting point for overcoming our national condition: that of a country of lost opportunities. There are a number of reasons that make the transition to a new century a propitious moment for proposing a vision of the future we desire.

Firstly, we are not entering the new century in such a chaotic situation as that which prevailed just over a decade ago. With decision and enormous sacrifice, the Peruvian people have succeeded in stabilizing the economy, defeating terrorism, bringing Peru back into the international financial community, embarking on a series of macroeconomic policy reforms and consigning to the past the historic conflicts with Ecuador and Chile. We must not forget that this process was accompanied by the breakdown of democratic institutions, excesses of state repression, an overbearing and authoritarian style of government, arbitrariness and lack of transparency in public administration and an overwhelming concentration of political power. Nevertheless, we must now – without either eupho-
BOX 1.5
Studies of the future and strategic planning

The capacity of thinking about the future is a characteristic unique to human beings. We are the only creatures on this planet capable of anticipating events and preparing responses to confront hypothetical situations, and of imagining ourselves in situations better than our current one, with ways of approaching those situations.

This uniquely human faculty has found expression, since time immemorial, in myths, legends, oracles, tales and fables. Imagining the future became a more orderly activity with the advent of rigorous methods of organizing our thought processes. In the Western world, Plato's "Republic" was one of the first attempts to describe a desirable society: centuries later, there followed Saint Augustine's "City of God", Thomas More's "Utopia", Tomas de Campanella's "City of the Sun" and Francis Bacon's "New Atlantis". All put forward visions intended to stimulate the imagination and to influence rulers. The Enlightenment and Positivism, with their beliefs in the power of human reason and progress, strengthened the tendency to think about the future. As time passed, these perspectives meant that planning and strategic planning became professional activities – they could describe in a rigorous manner possible future situations and define the paths to arrive there.

Quantitative methods for predicting and extrapolating in order to project historical trends – primarily through the techniques of mathematical statistics – had a marked influence on planning processes for two-thirds of the 20th century. The planning of military operations during the Second World War emphasized the anticipation of combat situations and the corresponding troop deployments: this strengthened the development of quantitative planning methods and precision in the calculation of variables which future situations involve. After World War II, many of these techniques began to be applied in the public sector and in private business: the availability of computers significantly increased the capacity to project trends.

For several decades, Latin America has been developing a tradition of studying the future. Contemporary origins are to be found in the Seventh InterAmerican Planning Congress held in 1969 in Lima, Peru, whose principal issue was "America in the year 2000." At the end of the 1960s and the early 1970s, various national projects were developed which sketched out long-term perspectives for the countries of the region. Angel Monti wrote in Argentina "Proyecto nacional; Razon y diseno"; the Peruvian military government designed a long-term national plan in 1969; and the Center of Advanced Military Studies (CAEM) repeatedly emphasized the importance of adopting a National Plan to orient Peru's development. At the end of the 1960s, the Argentine mathematician Oscar Varsavsky developed the methodology of "numerical experimentation" to facilitate the quantitative exploration of alternatives for the future. His viewpoints became well-known throughout the region and allowed the development of simulation models to experiment with socio-economic policies in Venezuela, Chile, Peru, Bolivia and Argentina.

In spite of the economic crisis of the "lost decade" of the 1980s, when emphasis was placed on the resolution of short-term financial problems, a number of groups and study centers prepared long-term planning studies: they included the Javier Barrios Silva Foundation in Mexico, the National Science and Technology Council (COLCIENCIAS) in Colombia, the Development Analysis Group (GRADE) in Peru and a series of other groups in Chile, Brazil, Argentina and Venezuela.

During the 1990s, studies on options and strategies for Latin American development were produced by the Latin American Economic System (SELA), the Andean Community (CAN), the Economic Commission for Latin America and the Caribbean (ECLAC), the Development Center of the Organization of Economic Cooperation and Development (OECD), the InterAmerican Development Bank (IDB) and the Vice-Presidency for Latin America at the World Bank. To these studies can be added reports sponsored by state entities, business associations and non-governmental organizations. In Brazil, between 1997 and 1999, the Secretariat for Strategic Affairs of the Presidency of the Republic prepared various scenarios for the exploration of future opportunities in the context of globalization. In Peru, the National Confederation of Businessmen's Associations, CONFIEP, organized a program called "Peru 2021" which gave the private sector's perspective on the country's long-term possibilities. The Peruvian Institute of Business Administration, IPAE, held a national conference towards the end of 1996 entitled "Peru in the 21st Century: proposals for a shared vision". And the government agency Promperú in 1998 and 1999 encouraged discussions intended to develop a vision of Peru in the future.

Studies on the future are now a very important element for public sector agencies, private sector businesses, the entities which represent civil society and international organizations. Such studies help better to define the role of the organization, to explore systematically the context in which it carries out its activities, to identify new options and initiatives for its future development and to set out the guidelines and strategic actions necessary for decision-making. Using these strategic decisions as a starting point, it is possible to define priorities and sequences of actions, to assign resources of all types and to continuously evaluate the performance of organizations. For the past two decades, studies of the future and strategic planning have been applied with great success to the design of strategies for industrialization, competitiveness and development in a variety of countries and regions – especially in South-East Asia, the European Union, the United States and Canada.
ria or mean-spiritedness – build on the advances if we are to confront the enormous problems of our country.

Secondly, we are becoming aware that Peru’s is a country whose performance is well below its potential. The results of the multiple efforts made every day by most Peruvians, many of whom face a hard struggle for simple survival, do not appear to justify the dedication and energy expended. It would seem that, in today’s Peru, the whole is less than the sum of its parts – or that we are running as fast as we can yet only manage to stand still. But things do not have to be this way. Experience – ours as well as others’ – teaches us that this is the result of poorly-functioning institutions, to a lack of confidence in inter-personal relationships and the loss of human values. And all this can change. Even without increasing resources and effort, we could be far better off than we are if we could overcome the deficiencies in our institutions, encourage confidence and recover ethical and moral values. Some of the manifestations of this awareness are: the rejection of corruption, the widespread call for the reform and decentralization of the state, and the concern with raising the self-esteem and self-image which we Peruvians have of ourselves. We must transform this awareness into strategies and actions on the part of the State, the private sector and civil society.

A third reason which makes the present moment propitious for proposing a vision of the future and a strategy for development is that a wide range of organizations – regional movements, grass-roots organizations, business and professional associations and student groups, among others – are putting forward both concerns and proposals which evidence a willingness to work together to improve their own situation and that of the country. With a shared vision of the future and a strategy to approach it, we can articulate in a positive manner these demonstrations of dissatisfaction and the desire for improvement.

We possess in the energy and efforts of our citizens a huge potential which we have not yet succeeded in harnessing – due primarily to deficiencies in our political leadership and the inability of State institutions to process and respond to these concerns in a transparent and non-manipulative manner. However, we cannot expect grass-roots initiatives – channeled through civil society organizations or expressed via citizen protest – by themselves to lead to prosperity and wellbeing for all Peruvians. Without support from political authorities, such initiatives are likely, sooner or later, to run out of steam, leading to frustration, apathy and even to violence.

Fourthly, many of the dilemmas which seemed inevitable on the path to development – economic growth or reduction of inequalities, material wellbeing or environmental conservation, assignment of resources by the market or state intervention, for example – have been overcome and are no longer perceived as “zero sum” games. Five decades of efforts to promote development in different parts of the world have taught us that, before reaching crucial points at which one or other option must be chosen, there is a long road to travel; along the way, there are strategies and policies which allow us to advance in two directions simultaneously. For example, contrary to what was thought some three decades ago, there is no contradiction between the promotion of material wellbeing and the protection of the environment. A wide range of policies and actions is available to governments, the private sector and civil society organizations which they can adopt in order to promote the sustainable use of natural resources while, at the same time, fulfilling the objectives of creating wealth and conserving the environment. Similarly, we have learnt that state regulation is indispensable if markets are to function properly, especially in developing countries; and that a better distribution of wealth assists the process of economic growth. Overcoming these supposed contradictions has opened up new possibilities and strategic options to allow us to approach what we, as a country, wish to be. In addition, we have a vast and rich storehouse of knowledge and experience in development promotion all over the world, the chief lessons of which have been outlined in earlier this chapter.

A fifth reason is that financial limitations to getting a development strategy moving are not as severe as had been thought until recently. By reducing corruption and improving efficiency in the public sector, resources could be significantly increased. Experience of other countries also shows that reassigning public spending to areas prioritized by a development strategy – for example, cutting back defense and security spending in order to increase resources devoted to economic and social objectives – allows countries to reach higher levels of prosperity and wellbeing without the need for a rise in total public financing.

Citizen organization and voluntary labor, especially among the poorest, can be seen as an additional source of funds: we have clearly seen their importance in Peru in the past two decades. Popular mobilization for social programs constitutes an important additional resource which complements public sector budget assignments and private donations. For example, it is estimated that voluntary work and the capacity of organization on the part of women
represent around a quarter of the cost of a meal in Peru's community kitchens, and a similar percentage of the cost of one daily ration in the school meals provided by the "Glass of Milk" program.

On the other hand, financial globalization and the explosive growth of international financial markets allow - at least in principle - greater access to savings generated in other countries. Even though the high mobility of transnational capital has a series of undesirable effects (Chapter 2) and imposes extremely strict conditions as far as macroeconomic stability is concerned, it has also multiplied the opportunities of accessing international financing through a wide range of channels. In addition to direct foreign investment, we have bond issues by governments or private companies; loans from commercial banks and bilateral, regional and international financial organizations; stock exchange investments; resources associated with the privatization of state-owned companies and concessions to the private sector of the provision of public services. With sensible macroeconomic management, a clearly defined vision of the future, a viable development strategy, stable rules of the game and strong institutions, it is possible to attract foreign capital to complement national savings and promote productive investment. All of which suggests that financial restrictions are not so severe as to significantly restrict the possibility of putting into practice the proposed development strategy.

Another possibility which has emerged recently is that rich countries should pay for the global environmental services which poor countries provide, for example when they conserve their forests. Vegetation - and particularly that of the vast tropical forests - helps eliminate from the atmosphere the carbon dioxide which produces the greenhouse effect and global warming. The transfer of resources which could materialize in the next two decades to countries which conserve their forestry resources could prove higher that all current development aid. If this initiative were to come about, Peru could be the recipient of a considerable sum of money for the environmental services our country provides to the world (Chapter 2).

Finally, two aspects linked to the processes of change in today's world and to Peru's demographic structure make the transition to a new century a propitious moment to reflect upon our future, and to embark on a broad-ranging process of social learning.

The first refers to the accelerating tempo of change in all areas of human activity, which permits significant advances in the space of a generation. For example, the United States and England took almost half a century to double their per capita income levels - between the start and the middle of the 19th century. Japan did the same in a little over thirty years, at the end of the 19th and start of the 20th centuries. In the 1960s and 1970s, Turkey and Brazil doubled their per capita incomes in under twenty years, while Korea and China managed it in just ten years, in the 1970s and 1980s respectively. In addition, the speeding up of scientific discoveries and technological innovation have reduced the time required to achieve productivity gains and advances in health and education - among many other fields. With a shared vision, a strategy to achieve it and a wide-ranging mobilization of effort and will, it is possible to attain in two decades levels of prosperity and wellbeing that would previously have taken half a century.

The second aspect refers to the importance of young people in our country, not only because of their weight in relation to the whole population, but also because of their expectations and attitudes towards the future.

Today, more than half of all Peruvians are under 25 years of age, and in the next two decades we shall have a higher percentage of Peruvians of working age (that is, between 15 and 64) than from 2030 onwards, when the total population of Peru is projected to stabilize at 35 million and the number of senior citizens will increase (Chapter 4). This means that the young people of today, who will reach their prime of life in the next three years, will set the pattern for our development during the coming century. Contrary to the widespread perception of the young of the 1990s as egotistical and excessively individualistic, it is evident that a growing number of them are actively seeking a balance between personal freedom and individual initiative on the one hand and, on the other, the creation of opportunities for all, social cohesion and solidarity.

"Fin-de-siecle" and "the end of the millennium" are phrases which have a marked Christian bias: they do not correspond to the calendars of other civilizations and cultures which globalization has obliged us to recognize and take into account. We should remember that the Christian year 2000 is 5760 in the Jewish calendar, 1420 in the Islamic, and for the Chinese it is the year of the serpent. At any event, the transition to the 21st century is a milestone that motivates us to examine our history, reflect upon the present and explore the future. What occurs in the next twenty years will define, in large part, the destiny of Peru in the 21st century, and it will be the young people of today who will be responsible for our future.
The current situation, its possibilities and potential dangers should not be a source of fear or suspicion about the future. There is ample opportunity for us to move towards a vision of the Peru we desire, to promote a shared sense of the common good, to overcome our limitations and restrictions — and to make Peru a viable, prosperous and united country. The older generations have the enormous responsibility of making a critical assessment of what they have achieved in the past half century, and of ensuring that others learn from the mistakes which made Peru the land of lost opportunities and unfulfilled promises. A generation of young people better informed and more conscious of what we have been and what we could become will play the principal role on the Peruvian scene for the next two decades. They will be the ones who will produce and administer change, who will lead the process of social learning and who will ensure that the Peruvian dream is fulfilled.
CHAPTER TWO

PERU IN
THE NEW
INTERNATIONAL
ARENA
INTRODUCTION

The accelerated changes which have been occurring in the international arena place conditions on Peru’s development efforts: they demand modifications in foreign policy and the way in which Peru is linked with the rest of the world. This international arena could be seen as the frame on which — over the next twenty years or so — we must reconstruct Peru’s social fabric, interweaving the threads of the warp (which correspond to the strategic directions, Chapters 3 to 6) and those of the weft (the institutional reforms associated with democratic governance, Chapter 7). As the front cover of this book shows, each of these groups of threads reaches over the edge of the frame, and out towards the rest of the world. At the same time, some of the threads originate outside the frame and are brought into the warp and weft of the social fabric which we must re-weave.

If we are to give structure to our series of links with the outside world, it is necessary to have a proper appreciation of the evolution of the international context, which is at present characterized by the emergence of a fractured global order and by the weight which ideological proposals associated with globalization have acquired. With this appreciation as our starting point, we can identify the main lines which will guide the management of Peru’s insertion into the international community and the design of foreign policy.

THE FRACUTRED GLOBAL ORDER

The vast number of changes and trends which have emerged over the past three decades indicate that we are witnessing a globalization process which is accelerated, segmented and unequal. The expansion on a global scale of productive and service activities, the growth of international trade, the decreasing importance of national frontiers and the massive exchange of information which can be accessed all over the world co-exist with the concentration of “global” activities in certain countries, cities and even districts. Such activities are concentrated within a few hundred transnational corporations.

The simultaneous integration and exclusion of regions, countries and social groups are two closely related aspects of the many-faceted process of globalization and fragmentation now under way: they are creating a fractured global order. It is indeed a global order, but it is not integrated. It is an order which allows us to be in contact with one another, yet which at the same time preserves and creates deep divisions between different groups of countries and between the people living in those countries. It is an order which is benefiting a small part of humanity and segregating the bulk of the world population.

The emergence of this fractured global order has ancient historical roots. The fissures which accompany the globalization process began to appear in the 15th and 16th centuries, from the beginnings of the expansion of Western Europe into the world arena. However, the accelerated processes of political, economic, social, environmental, cultural, scientific and technological change which has occurred since World War II have created a radically new context for the evolution of humanity. Advances in science and technology have wrought profound changes in the way human beings interact, in concepts of human nature and in the possibilities for the future evolution of our species. All of which demands a profound reappraisal of the concepts of progress and development, in rich countries as well as in poor ones.

Box 2.1 summarizes the principal trends which characterize the fractured global order. Ambiguities, contradictions and inconsistencies, which generate confusion and uncertainty, accompany this uneven process of globalization and fragmentation. The various forces which interact to produce the fractured global order do not all pull in the same direction. These trends and forces may produce positive or negative results depending on the viewpoint from which one considers them, on the structure of the
<table>
<thead>
<tr>
<th>TABLE 2.1</th>
<th>The main dimensions of the fractured global order</th>
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</table>
| **International security in a post-bipolar world** | • End of the Cold War and East-West rivalry  
• Virtual elimination of the threat of total nuclear war and of conflicts based on Cold War ideology  
• Emergence of new security concerns: environmental conflicts, terrorism, drugs trafficking, international crime, proliferation of chemical and biological weapons and small-scale nuclear artifacts  
• Exhaustion of the power of nation states as entities for the formulation and execution of policy (as much through pressures "from above" as "from below")  
• Increase in the number and intensity of regional conflicts (ethnic, religious, over resources)  
• Greater role for international and regional institutions in maintaining security – in particular for the United Nations |
| **Economic and financial interdependence** | • Rapid growth and globalization of financial markets  
• Changes in trade patterns: transformation of the content of trade in favor of services and high-technology manufactured goods, emergence of the North Pacific as the dominant area in international trade, growth of trade within transnational companies, creation of the World Trade Organization  
• New situations in key countries (United States, Russia, Japan, European Community, China, recently industrialized countries of South-East Asia) |
| **Persistent inequalities and economic uncertainty** | • Persistent and growing inequalities between rich and poor countries  
• Growing inequalities of income and opportunities, within both rich and poor countries  
• Greater instability in the international economic system  
• Increasing concern and demands for a better international economic governance |
| **Social conditions** | • Demographic imbalances: low population growth and more older people in the rich countries, high population growth and large numbers of young people in poor countries  
• Spiraling social demands (for food, education, health, housing, water and sewerage) in poor countries  
• Unemployment: developing countries face the challenge of raising productivity while absorbing a growing number of new entrants to the labor force, while developed countries face structural changes in employment patterns  
• Widespread and growing social exclusion (related to gender, ethnic, age, poverty and educational factors) in both rich and poor countries  
• Redefinition of gender relations |
| **Environmental sustainability** | • Increased awareness of the importance of the sustainable use of natural resources and problems of pollution  
• Threats to environmental sustainability and to the adequate utilization of resources: poverty in developing countries and excessive consumption in rich ones  
• Environmental factors have become important for international security  
• Necessity of appropriate environmental policies capable of guaranteeing sustainable development  
• Acceptance of the danger which global environmental problems represent |
| **Culture, religion and ethical concerns** | • Growing importance of religious and spiritual values  
• Emergence of religious fundamentalism (Islamic and Christian, among others)  
• Conflicts between a tendency towards cultural homogeneity and the desire to reaffirm cultural identities, primarily as a result of the globalization of the mass media, transport and communications  
• Increasing importance of ethical and moral issues particularly in regard to equity and human rights |
| **Governance and the dissemination of democratic practices** | • Crisis of governance in poor and high-income countries (representation versus efficiency, social demands outstripping institutional capacities)  
• Political pluralism, democracy and popular participation have expanded throughout most of the world  
• Roles of the public and private sectors and of civil society organizations are undergoing redefinition everywhere  
• Social consequences of economic policy reforms exacerbate the problems of governance  
• Impact of information technology on political systems and governance  
• Growing importance of social capital and institutional development |
| **The explosion and fragmentation of knowledge** | • Exponential growth and increased importance of scientific and technical knowledge as a factor of production; transition towards an information and knowledge-based society  
• Changes in management of scientific research: rising costs, greater specialization, importance of information technology  
• Increasingly systematic nature of technological innovation: greater quantity and diversity of inputs required, participation of a larger number of players  
• Changes in the techno-economic paradigm: from one intensive in energy (with oil as the key factor) to one intensive in information (with the microchip as the key factor)  
• Extreme and accumulated inequalities in scientific and technological capabilities between the industrialized and developing countries  
• Limited scientific and technological capacity of the poor countries to confront economic, social, political, cultural, environmental and society-of-knowledge challenges |
relationships of power associated with them, and the capacity to design and execute strategies that take advantage of the opportunities and counteract the disadvantages which these changes bring. Considered alone, any one of these trends could have important consequences for the future of developing countries. Taken together, they represent an epochal change, a fundamental shift in the frame of reference for efforts to achieve prosperity and wellbeing.

The fractured global order gives rise to a series of demands which require strategic responses from governments, businesses and civil society organizations in developing countries. The end of the Cold War and new concerns with international security (ethnic and religious conflicts, the possibility of chemical and bacteriological warfare, terrorism, the proliferation of small scale nuclear weapons, organized crime, drugs trafficking, environmental disputes) demand new arrangements for international and regional security, as well as new doctrines for national defense. Growing economic and financial interdependence, together with changes in international economic relations, demand new strategies for the insertion of economies and businesses in an international scene which is increasingly volatile and competitive, and in which financial globalization plays a leading role (Box 2.1).

Social conditions and persistent inequalities pose an enormous challenge to the maintenance of social cohesion. Demographic imbalances between rich and poor countries; rapid growth in the demand for food, health, education, housing, drinking water and sewerage services in the developing world; widespread poverty associated with economic, political and social exclusion; and problems of unemployment and underemployment, which affect rich countries as well as poor, all require imaginative and practical responses both at the international level and at the level of national and local strategies and policies. Similarly, the significant changes which have occurred in gender relations — as a result of the ability women have acquired to regulate more easily their own fertility — have great importance for the world of work and home: they demand a new perspective on the conventional division of responsibilities between men and women, both in the workplace and in the upbringing of children.

Awareness of the importance of environmental protection and the sustainable use of natural resources, associated with the appearance of environmental problems of a regional and global nature, demands responses to ensure that the process of development does not limit the opportunities of future generations. The growing importance of religious, cultural and ethical factors in the conduct of government affairs adds fresh demands to an already overcrowded public agenda: it brings to the fore issues such as religious tolerance, respect for human rights and tensions between pressures towards cultural homogeneity and the affirmation of cultural identity. In the same way, the spread of democratic practices and the collapse of one-party totalitarian systems in Eastern Europe and the former Soviet Union have wrought significant changes in the institutional structures of states and governments, highlighting the importance that social capital and institutions have in the political and economic performance of nations.

Finally, scientific and technological advances associated with the exponential growth of knowledge, the acceleration of the processes of innovation and the transition towards an information-based society have transformed the productive process in the advanced economies. At the same time, they pose extremely tough challenges to for the majority of developing countries. Inequalities in the capacity for generation and utilization of scientific knowledge overshadow any other way of measuring inequalities between rich and poor countries: at the start of the 1990s, per capita spending on research and development in high-income countries was 220 times higher than the corresponding amount spent in low-income countries, while per capita income in the former was about sixty times higher than in the latter. These differences have persisted for decades, even centuries: and due to the accumulative nature of scientific and technological progress, they enormously complicate the efforts to close the knowledge gap between rich and poor countries.

Nevertheless, some newly-industrialized countries have succeeded in building significant scientific and technological capabilities within the space of a single generation (for example, South Korea, Taiwan and Singapore), which indicates that it is possible to build a bridge across the knowledge divide. But this requires a huge effort of the part of the State, the private sector and the scientific and technological community: an effort which will need to be sustained for several decades (Chapter 5). At the dawn of the 21st century, as we fully enter the knowledge-based society, only those countries which have access to scientific and technological advances — and the capacity to use, absorb and adapt science-based technologies — will be in a position to chart their own course to development.

In spite of the advances towards globalization of processes and trends, it should be kept in mind that only certain sectors of the global economy — including financial services, manufactured products with a high technological content and commu-
The social challenge of financial globalization

Financial globalization poses serious challenges for social development, partly because it has undermined the great accord between capital and labor forged in Europe and North America in the wake of the Second World War. That accord gave rise to the Welfare State and to social security, reduced the negative impact of economic liberalization, allowed the overcoming of antagonisms which had led to social conflicts and political instability in the first half of the 20th century, and made possible an unprecedented period of world growth and social progress. A key factor in the accord was the collection of income taxes on capital in order to finance social services associated with the Welfare State, such as free education and public health, unemployment benefits, housing subsidies and income redistribution for the poorest. This allowed a widespread rise in consumption, improvements in standards of living and increased wellbeing for the majority of the population.

Some developing countries put into practice social policies similar to those of Europe and North America, although limited fiscal resources did not permit extending those benefits to the whole of the population. Where an accord was not struck between capital and labor, various alternative institutional mechanisms allowed social order to be maintained. For example, employment stability (which, in some South-East Asian countries, supposedly guaranteed employment for life), the support from extended family networks, the services provided by a variety of grass-roots social organizations and the activities of religious movements have all fulfilled support and social security functions in a number of areas of the developing world.

Financial globalization has undermined the foundations of the social accord between capital and labor in the industrialized countries, and has weakened the alternative institutional arrangements which played a similar role in other regions. The unprecedented mobility of financial capital has severely restricted the possibilities that states possess to tax income associated with capital. This leaves governments with the unattractive option of raising disproportionately their taxes on income from labor. According to the International Monetary Fund: “The growing mobility of capital limits the capacity of the authorities to collect taxes and to transfer income to those affected by globalization. In so far as mobility of capital is greater than mobility of labor, the tax burden related to financing networks of social protection for those affected by globalization falls on the workers.” The economist Jagdish Bhagwati, a well-known apostle of free trade, has strongly criticized the liberalization of capital markets, indicating that there is no justification for it from the viewpoint of economic welfare. He argues that it responds only to a “Wall Street-Department of the Treasury complex” and makes a comparison with the “military-industrial complex” denounced by United States President Dwight Eisenhower towards the end of the 1950s.

The economic, social and political impact of globalization also manifests itself through “competitive deregulation”, which consist in offering more and more advantages to foreign capital to attract investments. This has led to the elimination of environmental regulations, the liberalization of the labor markets, the granting of monopolies to foreign investors and the elimination of regulations which affect capital flows. In some extreme cases, tax stability agreements and other guarantees offer foreign capital better conditions than those available to local capital, and the State assigns public resources to infrastructure works intended to attract foreign investment.

Unregulated financial globalization has endangered the social accord which led to the Welfare State in Europe, North America and Japan, and is exacerbating the crisis of social policies which were already under pressure due to demographic changes and an increasingly elderly population. In addition, the excessive mobility of capital is creating serious problems in developing countries and transitional economies, since it severely restricts the role which States, governments and civil society organizations can play in supporting the institutions and programs which serve to maintain social cohesion.


Communications media - have expanded their activities world-wide: a very large proportion of productive and service activities remain firmly anchored in their region or district. This is the case of many agricultural activities, of small manufacturing, crafts and a whole range of services whose geographical reach is limited: also of practically all activities linked to subsistence economies. It is difficult to estimate what percentage of the world’s population remains outside the global circuits of production, commerce, finance and consumption, but it is likely that a significant majority of those who live in poor countries do not participate in these circuits and are little affected by them.

It must be noted that no-one is directing in any conscious or deliberate manner the processes leading to a fractured global order. There is no overall coordinator who takes decisions on the course of the contradictory processes of globalization and frag-
mentation. Its diverse components function in accordance with a logic of their own. They interact in a turbulent manner: there is no master plan or hidden design. However, this does not mean that the processes leading to a fractured global order do not have a general orientation which is rooted in the type of thinking prevalent at the end of the 20th century: this favors market forces, encourages trade and financial liberalization and seeks to reduce the role played by states in social and economic development. From this viewpoint, perhaps the greatest challenge for the international community in its transition to the 21st century is to avoid letting the multiple fractures in the global order lead to the creation of isolated societies which distrust or ignore each other, or which harbor suspicions over each other’s motivations, aspirations and capacities.

GLOBALIZATION, IDEOLOGY, STATE AND FOREIGN POLICY

Experience in trying to promote development over the past half-century shows that it is not possible to achieve prosperity and wellbeing through isolation from the international community. But this no way implies a passive acceptance of each and every one of the manifestations of the fractured global order. On the contrary, one of the main responsibilities of government, business and civil society leaders in developing countries is to find creative responses to the challenges of the new international context. It is not just a question of highlighting the multiple forces and interests which are forging the fractured global order, far less of declaring war on globalization. It is a matter of adapting in a creative manner to globalization, of administering its consequences and, in so far as possible, dominating it.

The first task – if we are to counteract the threats of the fractured global order and take advantage of the opportunities which it offers – implies examining and understanding the nature and logic of the multiple forces which it consists of, abandoning the pessimism which has characterized many of the interpretations put forward by analysts in the industrialized countries (Box 2.2). One of the obstacles to a full appreciation of the characteristics of the new international order is that it has emerged accompanied by a series of preconceived ideas and policy recommendations that are apparently incontrovertible and universally valid. This is nothing new. At different times in the past half century, contrasting views have prevailed with regard to the “correct” policies and strategies for promoting development and for orienting the actions of international financial organiza-
criteria to explore those options which do not fit in with its proposals. For example, the main contribution of what was known as the "Washington Consensus" on economic policy – which encapsulated the received wisdom prevalent at the end of the 1980s within the academic community and the international financial institutions – was to recognize the importance of markets and the limitations of state intervention. Yet many officials from international organizations – and even more importantly, government officials responsible for economic policies in Latin America – interpreted the Washington Consensus in a biased and inflexible manner. This led them to justify the imposition of extreme measures for trade liberalization, financial deregulation, hasty privatizations and cutbacks in public spending without first establishing priorities, without measuring opportunity costs or secondary effects and without submitting the proposals to public discussion.

However, ten years later, a rethink of the Consensus by its creators led to the moderation of a number of its recommendations on economic policy; it also incorporated "second generation reforms" to improve the performance of the judicial branch, the regulatory agencies, the educational system and the operation of institutions of all kinds. For their part, the World Bank, the InterAmerican Development Bank and the International Monetary Fund have, in recent years, adopted more balanced interpretations of the Washington Consensus; they have complemented these with measures to reform public institutions, eliminate corruption, promote respect for human rights and strengthen citizen participation and democratic governance. It must be mentioned that some Latin American countries did not accept the rigid versions of the ideas of the Washington Consensus in the 1980s but adapted them to their own individual situations: in certain cases, they were well ahead in putting second generation reforms into practice.

Similarly, the end of the Cold War gave rise to superficial interpretations of the superiority of the Western economic and political model. Taken to extremes, these saw their 1980s AngloSaxon variants – associated with the neoliberal politics of Ronald Reagan and British prime minister Margaret Thatcher – as representing the only path towards prosperity and wellbeing. The spread of these ideas via the communications media, international cooperation agencies and academic circles gave the impression that it was useless to explore alternatives and that the only option was to passively adapt to the forces making up the fractured global order. However, a decade later, political leaders of North America and Europe have rejected the idea of a single model and have proposed a pluralist "third way" which combines, in different proportions in its different versions, economic liberalization with a more active role for the State.

Global trends impose limitations on all players on the international stage – particularly on the least powerful. Nevertheless, the room for maneuver available for the design of strategies and policies in developing countries is much greater than pessimistic interpretations of globalization suggest. All of which suggests it is better to adopt a critical perspective on the ideas, conceptual frameworks and policy recommendations which accompany globalization.

At the same time, in order to design viable development strategies and policies we must – from our own perspective – create conceptual frameworks which allow us to understand in all their complexity the processes that make up the new international context. By way of illustration, Box 2.3 and Figure 2.1 summarize an attempt to describe three components which make up the fractured global order: the domain of the global, the domain of the networks and the domain of the local: they also illustrate the fissures and divides which run through them. From this viewpoint, achieving a proper insertion into the emerging international order requires measures to project the actions of the State, the private sector and civil society not only into the domain of the local and the domain of the networks, but also into the new domain of the global.

A second task in the design of creative responses to the challenges of the fractured global order consists in adequately defining the role which should be played by the State in the international context of the next twenty years (see Chapter 7). In recent decades the nation state has been losing the capacity to control the phenomena of today's world, whether political, economic, social, environmental, cultural or technological. The pre-eminence of states is being eroded in many aspects of foreign policy, a fact illustrated by the new importance of regional organizations such as the North Atlantic Treaty Organization, the European Union, the United Africa Organization and the United Nations in the solution of conflicts.

Something similar is happening with national sovereignty in economic policy: in part, this is due to the capacity of international financial institutions to establish conditions for access to the resources which they control, to the influence of private companies which supply international investors with information on risk, to the proliferation of trade agreements around the world, and to the growing economic power of transnational cor-
The structure of the fractured global order can be conceptualized in terms of three closely interconnected and partially overlapping domains: the domain of the global, the domain of the networks and the domain of the local (Figure 2.1).

The domain of the global consists of the intensive, dense and almost simultaneous exchange of symbols and tangible goods on a planetary scale, which is characteristic of the information age. Advances in communications and information technologies have allowed us to free our activities and interactions from the constraints imposed by our immediate experiences, which are anchored in time and space. When these social relations are disembedded from their local context, they are transformed into vast and complex symbolic arrays that roam, intermingle and recreate themselves in a fluid fashion in the domain of the global. Images, sounds and words that blanket the planet through the mass communications media; cultural products and icons—music, movies, television programs, fashions and trends, ideas and concepts, aspirations and values—that link societies far apart from and virtually unknown to each other; and a vast exchange of messages, data and information through the telecommunications networks and the Internet—all these are the stuff from which the domain of the global is made. In this domain, which emerged in explosive fashion in the final quarter of the 20th century, it is difficult to trace the paths followed by specific transactions, for these take place at high speed, are ephemeral and can involve many agents simultaneously.

The domain of the networks consists of a bewildering multiplicity of combinations and exchanges of tangible and intangible goods—trade in products and services, power and influence relations, information exchange—which flow through myriad identifiable channels and nodes that interconnect individuals and social groups. Interactions in the domain of the networks involve all kinds of organizations—public institutions, private corporations and civil society associations—whose interrelations create a tangled web of transgovernmental, transcorporate and transassociative networks that overlap each other. The domain of the networks is constantly transforming itself, as channels and nodes are created and destroyed and new ones evolve. The social relations reflected in the combinations of tangible and intangible goods exchanged in the domain of the networks are both partially embedded in, and partially disembedded from, their local contexts. The domain of the networks has been a long time in the making, dating back particularly to the 16th century; it owes its present richness to advances in transport and communications.

The domain of the local is constituted by those human interactions anchored in time and space and which comprise the production, exchange and consumption of tangible goods and services that are necessary for human beings and social groups to survive and evolve. This domain has been in existence since the dawn of humanity, and the social relations it comprises are firmly embedded in the setting of our concrete experience. The domain of the local is where most of our daily life unfolds, and it contains an extraordinarily rich range of transactions whose characteristics are relatively easy to identify. This domain also comprises face-to-face interactions that allow us to convey feelings, emotions, intuitions, aspirations and values, all of which confer on human beings their unique nature.

The emerging fractured global order and its three domains are characterized by a multiplicity of fault lines of a political, economic, social, environmental, cultural, scientific and technological nature. These fault lines often overlap and shift direction; they sometimes reinforce each other and at other times work at cross purposes. The overall picture they paint is one of turbulence and uncertainty in which a variety of contradictory processes open up an extraordinarily wide range of opportunities and threats. Events, activities and phenomena are projected from the domain of the local into the domain of the global and vice versa: this has given rise to both globalized localisms and localized globalisms. All of which suggests that we are living in a period of profound and fundamental transformation that defies established habits of thought, similar to what occurred half a millennium ago during the Renaissance.

tenance of physical infrastructure and many other government programs is under way all over the world. In addition, fiscal decentralization and local tax collection have allowed local government districts to obtain their own financial resources, thus strengthening their autonomy. In extreme cases of violent conflict, this has led to some states breaking away – most notably in Eastern Europe, Central Asia and Sub-Saharan Africa.

The nation state – an institution conceived three centuries ago to handle the interaction between the local domain and that of the networks – is being submitted to enormous pressures coming from within its own territory and also from without. Added to the pressures and demands originating in the domain of the networks are those which, in recent decades, have been coming from the global domain (Box 2.3 and Figure 2.1). Exceeding the capacity of processing and response possessed by the governmental and inter-governmental entities through which states act, these new demands have generated uncertainty, instability, turmoil and a global governance crisis. In order to confront this crisis and create a more stable international environment – one which is favorable to development efforts – the action of individual states must be complemented with international initiatives. This implies the creation of new institutions which are capable of handling the interaction between the global domain and the domains of the local and of the networks.

This said, the State is still very far from disappearing or becoming obsolete. Despite the pressures it faces from above and below, and the wide variety of agents which intervene to make up the fractured global order, states will continue to be the principal players on the international stages for decades to come. They have demonstrated great capacity to adapt to changing circumstances, particularly considering the increasingly active role being assumed by the private sector and civil society organizations in the domains of the global, the networks and the local.

A third task in responding to the challenges of the fractured global order consists in envisioning a pattern of international insertion which will permit us to advance towards the vision of the future and the achievement of the common good. In turn, this demands a new concept and practice of foreign policy. As well as continuing with the diplomatic func-
ivation of representing the interests of the country on the international scene, contributing to guarantee external security and heading negotiations with other States, foreign policy for the decades to come must incorporate new dimensions.

Far more intensely and urgently than in the past, the new international context requires states to measure and bring into harmony the internal demands associated with achievement of wellbeing with external demands originating in the forces which characterize the fractured global order. This implies active management of the country’s international insertion, seeking both to soften the negative impacts of globalization and to project local initiatives in order to seize the opportunities offered by globalization. This implies a blurring of the lines between foreign policy and domestic policies.

In addition, foreign policy should help increase strategic development options: this implies a systematic and continuing monitoring of how international trends are evolving, an evaluation of their impact on the country and the design of a range of possible responses. In addition to the political and economic angles which have been the traditional matter of diplomacy and foreign policy, there are many other issues to take into consideration. They include those linked to the environment, democratic governance, respect for human rights, treatment of internal conflicts, the threat of organized crime and drugs trafficking, international migration and the regulation of cyberspace.

The proliferation of transgovernmental networks which link a huge variety of public bodies from different countries (including associations and periodic meetings of central banks, market regulators, parliaments, judicial entities, ombudsmen, tax collection authorities, armed and police forces) demands a huge coordination effort on the part of governments: this often exceeds the capacities of their ministries of Foreign Affairs. Something similar happens with the transcorporate networks of private companies and business associations – and with the transassociative networks of civil society organizations – which transcend national borders and create new links between the national environment and the international context. All of this is changing the nature of foreign policy and making it more complex, particularly for developing countries.

**Towards active management of international insertion**

Each of the dimensions of the fractured global order has implications for the design and execution of domestic policies. In turn, each of the strategic directions to be examined in the following chapters – productive transformation and competitiveness: equity, integration and social justice; environmental management, science and technology; territorial organization and physical infrastructure – has international outreach and is conditioned by what happens abroad. For this reason, active management of international insertion should articulate domestic policies in accordance with the evolution of the external context: a foreign policy is needed which is as much in line with the demands of development strategy as with the opportunities and threats inherent in a fractured global order.

Foreign policy and the active management of international relations should be matters of state, not just for the government, and designed and executed with a medium and long-term perspective. They should be based on a broad national consensus able to allow successive governments to act with energy and aplomb in the field of international relations; and they should embrace both individual initiatives and joint actions with other countries. The dimensions of the fractured global order and its implications provide a starting point to explore the content of the active management of international relations. Table 2.2 provides a summary of some initiatives which arise from this exploration: it shows the considerable room that exists for actions aimed at creating a more favorable environment for Peru’s development efforts.

Active management of international relations implies a decision on the type of links which we wish to establish with the domain of the global and the domain of the networks so that we may put a development strategy into practice. This, in turn, depends on the chances of influencing the definition of the rules of the game governing the behavior of a large number of players in these two domains of the fractured global order. Foreign policy should give priority to joint initiatives with other developing countries in order to modify the extremely asymmetric structure of power relations between the companies, government agencies and civil society organizations of rich and poor countries. Among other initiatives intended to create a more favorable environment for development efforts, Peruvian foreign policy should contribute with ideas and proposals for the renovation of the structure of the international financial system. It should also participate in the design of new mechanisms for the defense of democracy and human rights, for the regulation of international migration, for the reorganization of development cooperation bodies and for the reform of the United Nations system.
Economic and financial interdependence
The need to maintain the stability of the international financial system and to adapt rapidly and effectively to a constantly-changing global economic and financial context.

- Active participation in trade integration accords at all levels, and promotion of international accords to harmonize economic policies and regulate financial and commercial movements.
- Proposal of measures to advance towards a wider and more flexible network of international financial institutions to support developing countries.
- Adoption of initiatives to confront the deteriorating terms of trade between primary products and those with greater value added.
- Design and implementation of an external financing strategy with a medium and long-term horizon.
- Promotion of accords to obtain greater transparency, equity and stability in international transactions (intellectual property, external financing, prices of primary products, access to markets).
- Strengthening of private companies, government agencies and civil society organizations to both confront globalization and actively participate in it.

Persistent inequalities and social conditions
The need to reduce inequalities between nations, to establish equitable rules of the game in the international arena, to guarantee living conditions that are compatible with human dignity for all individuals, and to adapt relations between nations to the profound social changes which are taking place at the present time.

- Promotion, together with other developing countries, of the initiatives of international cooperation in reducing poverty and inequalities between rich and poor countries (reduction of public sector debt, access to markets in rich countries, transfer of technology).
- Integration of demographic considerations (age structure, expectations and the needs of different age groups) into international relations, with particular reference to migration.
- Implementation of international and regional initiatives for the provision of basic social services (access to preventive health, educational programs, water, sewage and housing).
- Exploration of new mechanisms for the international financing of social development (debt swaps, equity funds, support for national budgets).

Environmental sustainability
The need to promote the sustainable use of natural resources, reduce the global threats to the environment and fully incorporate environmental considerations into international relations.

- Active participation in negotiations over protection of the environment in the regional, international and global arena, particularly in negotiations over climatic change.
- Proposal of programs for the conservation of biodiversity as the heritage of mankind, with the additional objective of obtaining international financial support.
- Intensifying negotiations to obtain the transfer of clean and low-cost technologies which have reduced negative environmental impacts.
- Establishment of international norms on the transport of environmentally harmful products (nuclear waste, toxic products, garbage) which generally end up being stored in developing countries.

TABLE 2.2
Dimensions of the fractured global order and initiatives for international insertion

<table>
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<tr>
<th>Dimensions and implications</th>
<th>Initiatives for international insertion</th>
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<tr>
<td><strong>International security in a post-bipolar world</strong> The need to adapt national, regional and international security-linked institutions to a more complex, fluid and fragmented context, in which a greater variety of players is pursuing divergent objectives and confronting new threats to their security.</td>
<td>• Establishment of political alliances with other States in order to confront the new threats to security (environmental problems, illegal migration, terrorism, drugs trafficking, organized crime, proliferation of biological and electronic weapons). • Promotion of regional accords to generate confidence, keep the peace and avoid armed conflict between countries, as well as accords to reduce military spending. • Creation and strengthening of regional and international institutions for the resolution of armed conflicts when these arise, and to follow up on international commitments which member countries may adopt. • Adoption of measures to prevent violent domestic conflicts within States: this implies modification of notions of national sovereignty and intervention in internal affairs.</td>
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<tr>
<td><strong>Economic and financial interdependence</strong> The need to maintain the stability of the international financial system and to adapt rapidly and effectively to a constantly-changing global economic and financial context.</td>
<td>• Active participation in trade integration accords at all levels, and promotion of international accords to harmonize economic policies and regulate financial and commercial movements. • Proposal of measures to advance towards a wider and more flexible network of international financial institutions to support developing countries. • Adoption of initiatives to confront the deteriorating terms of trade between primary products and those with greater value added. • Design and implementation of an external financing strategy with a medium and long-term horizon. • Promotion of accords to obtain greater transparency, equity and stability in international transactions (intellectual property, external financing, prices of primary products, access to markets). • Strengthening of private companies, government agencies and civil society organizations to both confront globalization and actively participate in it.</td>
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<td><strong>Persistent inequalities and social conditions</strong> The need to reduce inequalities between nations, to establish equitable rules of the game in the international arena, to guarantee living conditions that are compatible with human dignity for all individuals, and to adapt relations between nations to the profound social changes which are taking place at the present time.</td>
<td>• Promotion, together with other developing countries, of the initiatives of international cooperation in reducing poverty and inequalities between rich and poor countries (reduction of public sector debt, access to markets in rich countries, transfer of technology). • Integration of demographic considerations (age structure, expectations and the needs of different age groups) into international relations, with particular reference to migration. • Implementation of international and regional initiatives for the provision of basic social services (access to preventive health, educational programs, water, sewage and housing). • Exploration of new mechanisms for the international financing of social development (debt swaps, equity funds, support for national budgets).</td>
</tr>
<tr>
<td><strong>Environmental sustainability</strong> The need to promote the sustainable use of natural resources, reduce the global threats to the environment and fully incorporate environmental considerations into international relations.</td>
<td>• Active participation in negotiations over protection of the environment in the regional, international and global arena, particularly in negotiations over climatic change. • Proposal of programs for the conservation of biodiversity as the heritage of mankind, with the additional objective of obtaining international financial support. • Intensifying negotiations to obtain the transfer of clean and low-cost technologies which have reduced negative environmental impacts. • Establishment of international norms on the transport of environmentally harmful products (nuclear waste, toxic products, garbage) which generally end up being stored in developing countries.</td>
</tr>
</tbody>
</table>

Economic insertion and productive transformation
Active management of economic insertion should aim to establish a pattern of international trade which is based on – and simultaneously facilitates – the transformation of the system of production and improved competitiveness. This new form of insertion should modify Peru’s traditional ties to the international economy. It should also reduce the country’s vulnerability to crisis and abrupt changes in trade and international financial movements, and help take advantage of the opportunities which the changing international market offers for transforming the system of production.

One of the most important aspects of economic insertion is the structure of international trade and its evolution over time. Throughout history, developing countries have primarily been exporters of raw materials and importers of manufactured goods produced by the industrialized countries. Since the middle of the 20th century – largely thanks to the work of Raul Prebisch and Hans Singer – there has been an increased awareness that this type of commercial relationship is heavily biased in favor of the rich countries. The “deterioration of the terms of trade” occurs because, with the passage of time, the average price of the raw materials exported by the poor countries loses ground against the average price of manufactured goods exported by the rich countries. Figure 2.2 shows the deterioration in the terms of trade during the 20th century. While it is true that this indicator has fluctuated significantly (for example, it improved with the abrupt rise in oil prices
during the 1970s), the trend throughout the century is quite clear.

Deteriorating terms of trade mean that countries must export ever-increasing quantities of raw materials in order to import the same quantity of manufactured goods. Peru’s possession of abundant natural resources has led it to adopt a development model based on the exploitation and export of raw materials and primary products (Chapter 5). It will be impossible to revert this unfavorable situation unless Peru manages to diversify its exports towards products with greater value added which increasingly incorporate technology and knowledge (Chapter 3). Table 2.3 gives a list of the 35 principal export products in the mid-1960s and the mid-1990s. It shows clearly how little our exports have changed and how – during the period of accelerated transition towards a knowledge-based society in the global arena – Peru has continued to export practically the same primary products. Worse still, the new products which appear in the 1997 list are low in technological content, even though textiles, garments and agro-industrial products have a relatively high value added component.

A second aspect of economic insertion refers to commercial integration in the subregional, regional, hemispheric and global arenas. We need to implement a strategy where trade links are increasingly intense in ever-wider geographical areas. For example, as part of the process of transforming the productive apparatus (which should lead to the export of products with a higher degree of processing and technological content), links with the Andean Community should be a first-phase priority. Later, Peru should advance towards South American integration (through accords with Mercosur) and, in a still later phase, reach out towards Central and North America, the Pacific Basin and the rest of the world.

### TABLE 2.2

**Dimensions of the fractured global order and initiatives for international insertion**

<table>
<thead>
<tr>
<th>Dimensions and implications</th>
<th>Initiatives for international insertion</th>
</tr>
</thead>
</table>
| Culture, religion and ethical concerns | • Promote and project abroad a plural cultural identity based on tolerance and respect of diversity.  
• Support international accords and programs for cultural, religious and ethnic exchanges, particularly through the mass communications media, the promotion of tourism (especially for young people) and cultural products (music, literature, plastic arts, dance, cinema).  
• Actively participate in the design and implementation of international codes of conduct aimed to avoid fraudulent practices and non-ethical behavior.  
• Support the work of international institutions in the defense of human rights, the fight against corruption and the peaceful resolution of conflicts. |
| Governance and democratic practices | • Promote international accords on democratic practices which should be universally recognized but which, at the same time, should take account of the different historical and cultural circumstances of developing countries.  
• Create room on the interior of and between transgovernmental, transcorporative and transassociative networks for dialogue which will facilitate a collective apprenticeship on governance and democratic practices.  
• Establish regional and international mechanisms to effectively monitor the commitments which countries adopt on democratic behavior and practices.  
• Explore and create new structures and mechanisms for governance in order to confront regional and global problems that exceed the capacity of action of individual States.  
• Strengthen international mechanisms of accountability, access to information and transparency of private companies, financial institutions and governmental agencies. |
| Knowledge generation explosion and fractures in the capacity for carrying out scientific and technological activities | • Redefine concepts and international development targets, emphasizing the capacity to generate and utilize knowledge as a key component in reducing poverty and improving the quality of life.  
• Facilitate access for poor countries to the world stock of knowledge, by eliminating restrictions (biased legislation on intellectual property), establishing channels for information exchange (telecommunications, Internet) and encouraging the transfer of technology.  
• Set up international programs and mechanisms to support the creation of scientific and technological capabilities in poor countries, channeling financial resources and technical assistance from international organizations and private enterprise.  
• Promote international accords on scientific and technological cooperation, as well as exchange programs for researchers, university professors and students.  
• Recover and upgrade traditional technology and know-how, introducing improvements and projecting them to the international arena so as to satisfy the demand for natural products (organic crops, traditional medicinal products, crafts). |
This should by no means exclude the seizing of opportunities to leapfrog one of these stages – as has happened, for example, with garment exports to the United States and Europe. But in general, we should strengthen the presence of Peruvian products in export markets which allow us to gradually improve productivity. Box 2.4 gives a short account of the international trade negotiations in which Peru is involved at the start of the 21st century.

Financial insertion and access to external financing are also very important for the transformation of production. They complement internal savings, support the balance of payments and – in the case of foreign direct investment – are accompanied by the transfer of technology and technical assistance. The financial isolation which Peru experienced in the second half of the 1980s highlighted the importance of maintaining good relations with the international financial community. In order to attract external financing, it is necessary to adopt sensible macro-economic policies (Chapter 3) and keep the rules of the game stable for investors: these rules should be based on political accords and consensuses which are the only guarantees of democratic governance.

Private financing flows to developing countries have grown explosively during the 1990s; at the same time, official financing from bilateral agencies and multilateral organizations has been at a virtual standstill. However, private capital flows have been concentrated in less than a dozen countries and, even if the tempo of foreign direct investment growth has been maintained, inflows for debt (bank loans, bond issues) and portfolio investments (in the stock market and short-term instruments) have fluctuated widely over the period (Figure 2.3). For this reason, it is essential that we design and implement a medium and long-term policy for external financing which takes account of the sources and uses of these resources in the framework of the aims of our development strategy directions.

Net external financing flows in relation to gross investment in Peru have fluctuated significantly in the past thirty years: they illustrate the impact of changes in the international environment as well as the effect of economic policies adopted by successive governments. Figure 2.4 shows that from 1985 to 1991 – when Peru was isolated from the international financial community – external capital flows represented less than 10% of gross investment. That situation was dramatically reversed from 1993 onwards as a result of economic “reinsertion”, privatization of state-owned assets and the explosive growth of capital flows which gave birth to financial globalization. It is unlikely that this combination of circumstances will recur in the near future because – among other reasons – most state assets have already been sold and because we are now fully integrated into the international financial system. However, a strategy for external financing and a series of appropriate policies would allow Peru to maintain net financing flows from abroad at a sustained level of more than 20% of gross investment.

The international dimension of social policies

The changing international context and the emergence of the fractured global order demand that the international dimension be explicitly considered in policies designed to achieve equity, integration and social justice (Chapter 4).

A first aspect of the international dimension of social policy is related to the fiscal impact of the process of financial globalization (Box 2.1). It is essential to bring tax policies of developing countries into line so as to avoid competition in the attraction of foreign investment by progressively reducing taxes on profits and other taxes on income and capital. This coordinated step should allow countries to increase their fiscal revenues so as to cover the expenditure that social programs involve. If the developing countries are to advance in this direction, we must adopt shared positions and act in coordinated fashion in international negotiations, seeking to establish more favorable rules of the game for trade and financing flows.

Secondly, international cooperation can play a very important role in social development. We need
<table>
<thead>
<tr>
<th>Product</th>
<th>1965 FOB value</th>
<th>1965 Percentage of exports</th>
<th>Product</th>
<th>1997 FOB value</th>
<th>1997 Percentage of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fishmeal, crustaceans and molluscs</td>
<td>155</td>
<td>23.3</td>
<td>Fishmeal</td>
<td>1,030</td>
<td>15.3</td>
</tr>
<tr>
<td>Copper of grades between 90% and 99% pure</td>
<td>82</td>
<td>12.3</td>
<td>Refined copper cathodes</td>
<td>786</td>
<td>11.7</td>
</tr>
<tr>
<td>(except blister)</td>
<td>37</td>
<td>5.6</td>
<td>Crude petroleum and bituminous minerals</td>
<td>397</td>
<td>5.9</td>
</tr>
<tr>
<td>Tanguis cotton (ginned)</td>
<td>47</td>
<td>7.1</td>
<td>Gold</td>
<td>500</td>
<td>7.4</td>
</tr>
<tr>
<td>Pig iron</td>
<td>37</td>
<td>5.6</td>
<td>Zinc and zinc concentrates</td>
<td>397</td>
<td>5.9</td>
</tr>
<tr>
<td>Cane sugar of up to 97% sucrose content</td>
<td>37</td>
<td>5.5</td>
<td>Crude petroleum and bituminous minerals</td>
<td>396</td>
<td>5.9</td>
</tr>
<tr>
<td>White Pima cotton (ginned)</td>
<td>30</td>
<td>4.5</td>
<td>Coffee (not roasted or decaffeinated)</td>
<td>239</td>
<td>3.5</td>
</tr>
<tr>
<td>Unprocessed coffee (green or as beans)</td>
<td>29</td>
<td>4.3</td>
<td>Lead and lead concentrates</td>
<td>158</td>
<td>2.4</td>
</tr>
<tr>
<td>Refined, thermic or electrolytic copper</td>
<td>26</td>
<td>4.0</td>
<td>Unrefined “blister” copper</td>
<td>153</td>
<td>2.3</td>
</tr>
<tr>
<td>over 99% pure</td>
<td>24</td>
<td>3.6</td>
<td>Copper and copper concentrates</td>
<td>141</td>
<td>2.1</td>
</tr>
<tr>
<td>Lead concentrates</td>
<td>24</td>
<td>3.6</td>
<td>Unprocessed zinc</td>
<td>117</td>
<td>1.7</td>
</tr>
<tr>
<td>Refined silver</td>
<td>24</td>
<td>3.6</td>
<td>Unprocessed silver (including dore)</td>
<td>105</td>
<td>1.6</td>
</tr>
<tr>
<td>Lead refined</td>
<td>23</td>
<td>3.5</td>
<td>Jewellery items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zinc concentrates</td>
<td>15</td>
<td>2.2</td>
<td>Processed or canned asparagus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrefined zinc bars</td>
<td>14</td>
<td>2.1</td>
<td>Tin and tin concentrates</td>
<td>91</td>
<td>1.3</td>
</tr>
<tr>
<td>Fishoil (anchovy — semi-refined)</td>
<td>13</td>
<td>2.0</td>
<td>Cotton knit shirts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copper concentrates</td>
<td>10</td>
<td>1.4</td>
<td>Fishoil</td>
<td>60</td>
<td>0.9</td>
</tr>
<tr>
<td>Iron concentrates</td>
<td>6</td>
<td>0.9</td>
<td>Refined lead</td>
<td>54</td>
<td>0.8</td>
</tr>
<tr>
<td>Fine alpaca fiber — top quality</td>
<td>6</td>
<td>0.8</td>
<td>Cotton knits and T-shirts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cero cotton</td>
<td>5</td>
<td>0.8</td>
<td>Frozen hake and hake fillets</td>
<td>52</td>
<td>0.8</td>
</tr>
<tr>
<td>Fishoil (anchovy) — refined</td>
<td>5</td>
<td>0.8</td>
<td>Iron and iron concentrates</td>
<td>52</td>
<td>0.8</td>
</tr>
<tr>
<td>Unprocessed bismuth in bars</td>
<td>4</td>
<td>0.6</td>
<td>Other fueloils</td>
<td>48</td>
<td>0.7</td>
</tr>
<tr>
<td>Fishoil (anchovy) — unprocessed</td>
<td>4</td>
<td>0.6</td>
<td>Residual 6 fuel oil</td>
<td>47</td>
<td>0.7</td>
</tr>
<tr>
<td>Tuna fish in oil — in 7oz cans</td>
<td>2</td>
<td>0.3</td>
<td>Raw sugar cane</td>
<td>46</td>
<td>0.7</td>
</tr>
<tr>
<td>Diesel and fuel oils</td>
<td>2</td>
<td>0.3</td>
<td>Zinc alloys</td>
<td>46</td>
<td>0.7</td>
</tr>
<tr>
<td>Unprocessed copper</td>
<td>2</td>
<td>0.3</td>
<td>Frozen shrimp</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton cake and residual</td>
<td>2</td>
<td>0.3</td>
<td>Other molluscs</td>
<td>38</td>
<td>0.6</td>
</tr>
<tr>
<td>Molybdenum concentrates</td>
<td>1</td>
<td>0.2</td>
<td>Cockleal and similar insects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unprocessed cadmium (bars)</td>
<td>1</td>
<td>0.2</td>
<td>Other zinc products ??</td>
<td>33</td>
<td>0.5</td>
</tr>
<tr>
<td>Unprocessed lead</td>
<td>1</td>
<td>0.2</td>
<td>Cotton jackets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tungsten concentrates</td>
<td>1</td>
<td>0.2</td>
<td>Fresh and refrigerated Asparagus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanguis cotton</td>
<td>1</td>
<td>0.2</td>
<td>Molybdenum and molybdenum concentrates</td>
<td>32</td>
<td>0.5</td>
</tr>
<tr>
<td>Whale oil</td>
<td>1</td>
<td>0.2</td>
<td>Cotton and bleached</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alpaca fiber — second grade</td>
<td>1</td>
<td>0.2</td>
<td>Refined copper wire</td>
<td>28</td>
<td>0.4</td>
</tr>
<tr>
<td>Natural barium sulphate</td>
<td>1</td>
<td>0.2</td>
<td>Other canned fish</td>
<td>27</td>
<td>0.4</td>
</tr>
<tr>
<td>Heavy fuel oils such as “Bunker C”</td>
<td>1</td>
<td>0.2</td>
<td>Silver and silver concentrates</td>
<td>27</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total of 35 products</strong></td>
<td><strong>639</strong></td>
<td><strong>95.8</strong></td>
<td><strong>Total of 35 products</strong></td>
<td><strong>5,180</strong></td>
<td><strong>76.8</strong></td>
</tr>
</tbody>
</table>

Note: The products which do not feature in 1965 are shaded.

Trade negotiations currently under way

At the present time multilateral trade liberalization agreements are being negotiated at several different levels: the Andean Community, the Asia-Pacific Economic Cooperation forum, APEC, the Free Trade Area of the Americas (FTAA) and the World Trade Organization (WTO). Some of these also cover the bringing into line of economic and financial policies. This situation – to which we must add the bilateral trade negotiations with Chile and Brazil – adds up to a complex panorama of simultaneous negotiations in different arenas and with different timeframes. If we are to achieve a degree of commercial insertion that is more favorable to Peru, these negotiations must be carefully coordinated.

The shared objective of all these processes is to open up, through trade liberalization commitments, new markets for Peruvian products. They should create new trade flows, and not simply divert existing trade with the rest of the world to the signatories of the new accords. Nevertheless, if the benefits deriving from these accords are to materialize, Peruvian companies must become more competitive; we must generate a larger supply of exportable products and create the institutional conditions to facilitate exports (such as providing information on markets, export credit and insurance and guarantees of quality). All of which implies a change in entrepreneurial mentality and drastic modifications in the productive sector, not only in order to export but also to be able to compete with imported products in the domestic market.

In addition to trade matters, economic integration negotiations encompass the bringing into line of economic policies (the benefits of tariff reductions, for example, can be wiped out by a currency devaluation), financial policies (subsidized credits for exports artificially improve competitiveness) and regulations on intellectual property, standards of employment and environmental protection. To reach satisfactory agreements in these negotiations, we must set up teams of specialists and professionals, in the public sector as well as in private business and in academia.

The three economic integration processes under way which are of greatest importance to Peru are those with the Andean Community, the Free Trade Area of the Americas (FTAA) and the Asia-Pacific Economic Cooperation forum (APEC).

**Andean Community**
After a difficult period of misunderstandings with its Andean partners in the second half of the 1990s, Peru has fully rejoined the activities of this economic integration accord: the aim is to achieve a common market in 2005. The accord also embraces social, environmental, educational, employment and financial aspects. The efforts of the ministries of Foreign Affairs of the member countries – Bolivia, Colombia, Ecuador, Peru and Venezuela – have also facilitated progress towards the creation of a shared foreign policy. Coordination between the Andean countries and the adoption of common positions are extremely important if concessions are to be obtained in economic integration negotiations with other groups of countries, particularly Mercosur and FTAA; these should receive priority attention.

In addition, Peruvian exports to Andean Community countries include a series of manufactured goods which do not feature in trade with other regions: these exports could thus serve as a basis on which to acquire experience and, later, a launch-pad for exporting to other countries. Subregional trade has also served as a "shock absorber" for Andean countries during periods of global crisis: trade levels within the Andean Community have held up while exports to other countries have dwindled.

**FTAA**
Negotiations in the framework of this accord – which started in 1994 and should finish in 2005 – seek wide economic integration for the 34 countries of the Americas. FTAA member countries make up 50% of Peru's foreign trade partners and, if we are to advance at the pace initially proposed, we will have to effect a speedy restructuring of industry and the Peruvian system of production in general. Otherwise, trade relations in the framework of FTAA could turn extremely unfavorable to Peru. One of the aims of these negotiations is to maintain the favorable treatment given by the United States to the Andean countries in the framework of counter-narcotics efforts.

**APEC**
The 21 countries which form APEC represent more than half of all world trade. Peru enjoys certain advantages since it is the only Andean Community country to be a member of this accord – and it will continue to be the only one for at least the next ten years. Using APEC as a framework, Peru could become a launch-pad for the exports to Asia of other Andean and South American countries, particularly Brazil. Simultaneously, Peru could become the port of entry for products from Pacific Basin countries that are going to the Andean countries and the rest of South America. This would channel new trade and investment flows to Peru as happened with Mexico and Chile after their entry to APEC.

Competing with APEC countries will be extremely tough for Peruvian industry: in some areas, the effect of the entry of cheap Asian products has already been felt. Once again we note the urgency of a process of productive transformation to enable us to identify and establish competitive industrial activities before the arrival of full trade liberalization within this accord (the year 2020 in the case of developing countries).
to design strategic links with international financial organizations and bilateral aid agencies that will allow us to obtain support and technical assistance for the formulation of policies, the design and execution of programs. We also need to share our experiences with other countries and secure financing for provision of basic social services, for combating poverty and for improving employment. The international financial institutions—particularly the World Bank and the Inter-American Development Bank—have decided to give priority in their lending over the next few years to the social sectors: this opens up new opportunities for external financing for social development.

Similarly, new international aid initiatives have arisen over the past decade which involve multilateral development banks, bilateral agencies, private foundations, non-governmental organizations and private business associations in social development programs. As specific examples, there have been programs organized to combat AIDS and tuberculosis, and to vaccinate children in the poorest countries. These initiatives can complement local efforts, as happened in Peru during the outbreak of cholera in the early 1990s. Box 2.5 describes a vaccination and immunization initiative launched at the end of the 1990s which might serve as a model for other social programs.

Thirdly, the international mobility of workers has become one of the most complex aspects of the international dimensions of social development policies. Despite their low rates of population growth and the need to complement their own work forces, the majority of developed countries have adopted immigration and labor policies which put obstacles in the path of workers coming from developing countries. Difficulties in implementing restrictions have created a labor market for illegal immigrants who work in extremely precarious conditions. The obstacles placed on mobility of workers are in sharp contrast to the freedom with which capital is able to circulate: it is essential that international liberalization of labor markets be addressed.

Some rich countries have designed selective immigration policies in order to attract highly qualified professionals from the developing countries: many of them have been trained at institutions financed by their home states. Even though many of these immigrants send part of their income back to family members in their country of origin, since there exist no mechanisms of financial compensation for what has been called the “brain drain”, this selective migration could be considered as a subsidy made by poor countries to rich ones. However, developing countries may obtain other benefits from the emigration of their professionals—benefits that go beyond the receiving of remittances. Migrants can supply information on export opportunities, establish links with institutions and businesses in the technologically more advanced countries, as well as providing technical assistance and alerting foreign investors to possibilities existing in their countries of origin. The program known as “Transfer of Knowledge Through Expatriate Nationals” (TOKTEN), put into practice by the United Nations (Chapter 5) was designed to take advantage of these opportunities.
The difficult social and economic situation Peru has faced in recent decades has provoked the emigration of many of its citizens. It is estimated that, until the mid-1980s, half a million Peruvians were living abroad – 45% in the United States, 35% in Latin America, 10% in Europe and 10% on other countries (mainly Canada, Australia and Russia). Between 1985 and 1990, it is estimated that a further 250,000 or more Peruvians emigrated: they included some 30,000 teachers, 8,500 technicians, 7,800 businessmen and traders, 65,000 students and 40,000 domestic employees. The majority of Peruvian emigrants maintain their contacts with Peru and send money back to their families. But, in addition, many successful professionals – in engineering, biological science, medicine and architecture, among other fields – could assist in the development of Peru’s scientific and technological capability through programs that would link them with academic institutions, research centers and local businesses.

Finally, it is not possible to isolate social policies and international labor markets from the increasingly common accusation of “social dumping” invoked to protect businesses in the rich countries from imports coming from developing ones. Even though many of these accusations may have some foundation (some export products are indeed manufactured under deplorable labor conditions, employing children and old people and paying extremely low wages) these arguments could easily be transformed into a new form of protectionism. This is especially possible, given that what – in a poor country – may be be relatively reasonable work conditions could appear – from the viewpoint of a rich country – like outright exploitation of the workforce. It is inconsistent to use the argument of social “dumping” to restrict imports while simultaneously limiting immigration. While it may involve some sacrifices on the part of workers in the rich countries, the liberalization of labor markets would help equal-

BOX 2.5
The Global Alliance for Vaccinations and Immunizations (GAVI)

GAVI was created in 1999 with the aim of ensuring that all the world’s children be protected against illnesses that can be prevented through vaccination. The members of GAVI, who have joined forces to coordinate and revitalize international, regional and national vaccination programs, include:

- The Bill and Melinda Gates vaccination program for children
- The International Federation of Pharmaceutical Manufacturers Associations (IFPMA)
- Governmental agencies from the United States, the United Kingdom, the Netherlands and Sweden
- Research and public health institutions in developed and developing countries
- The United Nations Children’s Fund (UNICEF)
- World Bank
- The World Health Organization (WHO)

GAVI has scheduled a series of activities designed to meet its targets within a five-year time frame: these include the provision of vaccination services, support for the production of vaccines and the financing of research programs to produce new vaccines against pneumonia, AIDS, tuberculosis and malaria. This initiative will invest at least US$150 million a year until 2005 and at the end of 1999 received a US$750 million donation from the Bill and Melinda Gates Foundation. In addition, at the start of 2000, president Bill Clinton sent to Congress a proposal to grant tax breaks to pharmaceutical companies which cooperate with GAVI. And more than 40 low-income countries have expressed interest in taking part in, and contributing to, this initiative.

The Global Alliance for Vaccinations and Immunization has highlighted the problems of governance which arise when public sector agencies, multilateral institutions, private companies, non-governmental organizations and foundations embark on shared programs. In the middle of 2000, some representatives of governmental agencies refused to finance GAVI until certain issues related to transparency of management and accountability were resolved. They expressed their concern – among other matters – with the need to ensure an equitable participation of all members at board level, the attributions of the directors of the board and procedures for appointing them, as well as over the mechanisms for channeling contributions and managing funds. Given that regulations governing the management of public resources are stricter that those for the private sector or for foundations, these concerns are not surprising; however, they must be attended to.

The focus adopted by GAVI involves a variety of different members and participants, programs and activities which are both specific and clearly defined. There is also a time limit set for the program and flexible management mechanisms. It could well be adopted as a model for mobilizing international assistance in a wide range of issues related to social development.

ize working conditions in different countries and also to resolve the problems of social dumping.

From the standpoints of equity, integration and social justice, international migration and the liberalization of labor markets are mechanisms to expand the opportunities for individual development: they could also allow people to exercise their right to seek better opportunities in any part of the world. The contradictions between the mobility of capital, knowledge, information and images on the one hand and the obstacles to the freedom of movement of people and their chances of working anywhere they like, on the other, are an inherent characteristic of the new, fractured global order. To resolve these contradictions, policies to open up the international labor market should be combined with policies for income transfer between rich and poor countries – as happened when the European Union incorporated new members during the decade of the 1980s.

These are highly controversial issues. Yet developing countries must begin to consider them as part of the active management of their international insertion and incorporate them into their agenda for negotiations with the high-income countries.

**The international dimension of environmental management**

A series of regional and global environmental problems have arisen over the past three decades which cannot be confronted without cooperation between States, and between the transgovernmental, transcorporate and trans associative networks. Problems such as acid rain, pollution of rivers and river basins, the reduction of the ozone layer and global warming (or the greenhouse effect) have underscored the importance of joint actions to protect the environment: they have also brought our attention to the possibility that it is human activities which are causing irreparable damage to the environment.

In spite of the difficulties in predicting the characteristics and the impact of global warming, the rise in average temperatures worldwide – accompanied by sharp changes in the prevalent climatic conditions in certain regions and zones – is capable of causing severe damage to eco-systems. For example, the glaciers and the permanent snow-caps of the Peruvian Andes have shrunk by hundreds of meters in the past three decades: this may seriously affect the capture, storage and discharge of water to some parts of the coast. The United Nations estimates that problems caused by shortage of drinking water will affect two-thirds of the world’s population by the year 2025 or so – something that could provoke disputes and conflicts over the use of the resource.

At the same time, international trade and the transfer of technologies will be increasingly affected by environmental considerations, with the spread of environmental protection practices, guarantees for the sustainable utilization of resources and the conservation of biodiversity. All of which indicates that foreign policy should explicitly incorporate an environmental dimension and include the sustainable management of natural resources as one of its principal pillars. For example, the South Pacific ocean – off Chile, Peru and Ecuador – has greater fishing potential than any other area of the world; the tropical Andes are one of the world’s leading centers of biodiversity; and vast areas of Amazonian forests absorb the gases that generate the greenhouse effect (Chapter 6). This places Peru in a privileged position in international negotiations over the use of these resources and the payment for environmental services which it provides to the entire planet.

International negotiations under way in connection with the Framework Convention on Climatic Change (initiated during the World Conference on Environment and Development held in Rio de Janeiro in 1992) open up new opportunities for cooperation and international financing for developing countries. More than 170 countries have ratified this convention which, among other considerations, committed developed countries to reducing emissions of the gases that produce the greenhouse effect. Five years later, in the framework of the Convention on Climatic Change, the Kyoto Protocol established that, by 2012, there should be a reduction of 5% over the levels prevalent in 1990. However, even that modest objective seems out of reach, due in part to the increasing tempo of economic growth and energy consumption, to the high cost of pollution reduction measures and the lack of political will on the part of governments.

The Kyoto Protocol incorporates three initiatives intended to give greater flexibility to the countries in the achievement of their gas emission reduction commitments at the lowest possible cost: the Clean Development Mechanism, the Joint Implementation Program and the international trade of emissions. The Clean Development Mechanism is applicable both to those countries that have assumed reduction commitments – chiefly industrialized countries and economies in transition – and to developing countries which are not yet obliged to reduce their emissions (Box 2.6). Meanwhile, the trading of emissions and joint implementation can only be applied to the first group of countries.
The idea behind these mechanisms is to take advantage of the differences that exist between countries with regard to the costs of reducing an additional unit of emission of the gases that produce the greenhouse effect. For example, reducing an additional ton of gases emitted could be extremely costly in those industrialized countries that have already implemented reduction measures. If the money which would have been earmarked for that were, instead, invested in developing countries where cheaper opportunities for emission reductions exist, both parties would benefit and the same goal of reducing total gas emissions would be achieved at a lower cost.

In the not-too-distant future Peru could receive external financing associated with the Clean Development mechanism. However, if this is to happen, Peru must play a firm and active role in the international negotiations connected with the Framework Convention on Climatic Change, preparing proposals, coordinating positions with other developing countries and designing projects which take advantage of the opportunities offered by the Kyoto Protocol.

**International implications of territorial organization**

Managing Peru’s international insertion with regard to the strategic direction on territorial organization and physical infrastructure focuses on taking advantage of the geographical location of Peru, the creation of space for economic activities in the border zones, and the strengthening of telecommunications links with the rest of the world.

Peru is the natural meeting point between South America and the Pacific Basin: it is also a point from which it is relatively easy to reach all of the countries of South America. Peru’s geographical location could allow the creation of a major distribution center for the transport of both people and freight: this would require major investment in works of infrastructure (Chapter 6). Specifically, it would be necessary to establish multimodal transport corridors combining highways, railroads and ports, as well as expanding existing air transport facilities and services. This would permit Peru to act as a link between Brazil, Bolivia, north-eastern Argentina and Paraguay on the one hand, and the Asian countries on the other. In addition, it would be possible to link up river trade in the Amazon basin with the Pacific coast via a highway network connecting the departments of Amazonas, Cajamarca and San Martin with the northern Peruvian coastal ports. Lima is also a natural center for air transport connections to all of South America. This suggests Peru could propose physical infrastructure projects with the leading countries of the region and with the Pacific Basin, with the aim of attracting foreign investment to finance major works in land, maritime, river and air transport systems.

**BOX 2.6**

**The Clean Development Mechanism – the Kyoto Protocol**

The Clean Development Mechanism (CDM) is an institutional innovation which could pave the way for a major accord between rich and poor countries to protect the environment and finance development. It was created as part of the 1997 Kyoto Protocol which, in turn, originates in the framework Convention on Climatic Change adopted at the World Summit on Environment and Development held in Rio de Janeiro in 1992.

The mechanism allows industrialized countries to meet their own goals for reduction of emission of greenhouse effect gases by financing such reductions in developing countries. For example, a European country and a Latin American one could arrive at the conclusion that a million dollars invested in Latin America to produce electricity with clean technology would generate a far more important reduction in emissions that a million dollars invested in Europe. Monitored by the CDM and with the active participation of private businesses, the transfer of resources and technology would appear in the balance sheets as a contribution to the programs for reduction of emissions in Europe: at the same time, it would promote investment in the Latin American country involved. Similarly, financing the conservation and reforestation of the Amazon forests – which absorb the greenhouse effect gases – could cost less than a comparable reduction in emissions in Japan, Europe or the United States. Such financing would be accounted for under the terms of the Kyoto Protocol.

A project or a program can form part of the Clean Development Mechanism only if it produces a measurable reduction in emissions that is sustainable in the long term, if the reduction is additional to that which would be produced without it, and if a percentage of the resources provided by the industrialized country is devoted to covering the costs of adapting to the adverse effects of climatic change.

Nevertheless, the CDM is still very far from becoming reality. Many of the governments which signed the Kyoto Protocol have been slower to take action than private businesses, which are already creating a world market for emission reduction programs. CDM has not been implemented, but there exists a series of initiatives that demonstrate its viability. Costa Rica has reached agreements with Sweden and the Netherlands for debt swaps for forestry conservation programs; the World Bank has set up a prototype fund to support exchange programs for emission reduction; the Asian Development Bank has prepared a portfolio of emission reduction projects for its member countries; and some futures exchanges are creating a fledgling market for the trading of emission reduction certificates.

Reinforcing regional economic opportunities in the border areas – including the design and execution of joint investment projects with neighboring countries – is another aspect of the international projection of the strategic direction which refers to territorial organization and physical infrastructure. The existing deficiencies in living conditions, support services and infrastructure in many of these areas demand corrective measures: in this way, governmental agencies, private businesses and civil society organizations will be able to establish an effective presence in such areas. The peace accord with Ecuador, signed at the end of the 1990s, has generated a series of projects for economic integration in border areas; while the economic circuits in the south of Peru, which are more integrated to the economies of Bolivia and northern Chile, demonstrate the importance of thinking and planning in these border regions productive activities capable of reaching across into neighboring countries.

The development of telecommunications is fundamental for Peru to actively manage its international insertion. Projecting activities from the domain of the local toward the domain of the networks and into the domain of the global demands a capacity to follow up on what is happening outside Peru; this in turn depends on an adequate and reliable telecommunications system which can be used to exchange information with the rest of the world in real time. The huge advances in communications and information technology have led to the explosive growth of the Internet, to wireless telephony, satellite communication, high-speed data and image transmission systems, and many other innovations. In turn, this has produced a radical change in ways of teaching and learning, in generating and disseminating knowledge, in producing, consuming and doing business. It has also significantly altered the patterns of interpersonal communications, reinforcing the trend towards the multiplication and fragmentation of contacts between human beings.

**Some consequences for foreign policy**

Peruvian foreign policy needs to evolve in order to confront the new challenges posed by the fractured global order and to actively negotiate and manage the country’s insertion into the international community. Despite the vicissitudes that the diplomatic service suffered during the 1990s, Peru has an established tradition of diplomacy and highly qualified professionals in the Ministry of Foreign Relations who are capable of rising to the challenges. For many years, Peruvian diplomats have made important contributions to the theory and practice of international relations (Box 2.7). The designation of Javier Pérez de Cuéllar as United Nations Secretary General, and the many diplomats who have held high positions in other international organizations, are proof of the international recognition the Peruvian foreign service has earned.

In the new context of the fractured global order, foreign policy has a far wider reach than that which corresponded to conventional and limited notions of diplomacy. Although the traditional functions of representation and exchange of information continue to be important in today’s conduct of foreign affairs, demands for an active management of Peru’s international insertion broadens considerably the arena in which foreign policy operates. The proliferation of transgovernmental, transcorporate and transassociative networks, together with the international projection of strategic directions and the impact of external events on the local scene, make it essential that those who are responsible for foreign policy behave more as coordinators of the initiatives of other players than as themselves leading actors in international affairs.

**BOX 2.7**

**A concept of international policy**

Peruvian diplomacy has made important contributions to the theory and practice of international relations. The following extract, taken from a text written twenty years ago by ambassador Carlos García Bedoya, illustrates some of these proposals which were the forerunners of the ideas on foreign policy prevailing in today’s framework of a fractured global order.

“International policy should be the result of a convergence of different interests which emerge from autonomous decision-making centers and which compete among themselves in an arena which is completely neutral and separate from its own: the arena of international society. When similar aims are put forward by other states, and are compared and contrasted, a solution should emerge which is relatively acceptable to all the interests involved. That will depend, firstly, on the clarity and precision of the stated objectives and, secondly, on the safety margin which a state can allow itself in its own external actions to obtain the greatest possible benefit from such competition. Thus, generally speaking, the State which obtains the end result closest to the foreign policy objectives it has set itself will be the State which is best prepared to compete internationally against the interests of other states, which has the clearest concept of its own best interests, which has planned out its aims with the greatest degree of precision, and which has access to the most effective mechanisms and procedures to achieve those objectives.”

If Peru is to project a positive international image we must, among other things, reach a broad consensus on our vision of the future. This will allow us to present to the international community a shared perspective on where the country should go. In turn, this would allow us to mobilize energies and arrive at commitments – both inside Peru and abroad – for the promotion of our national development.

In 1999 four institutions – the Peruvian Business Administration Institute IPAE, Peru 2021, PromPeru and AgendaPERU – agreed to unite efforts to elaborate a proposed vision of the future to be presented to Peruvians. The following is a summary of the preliminary text for this vision, which is currently under discussion:

"Peru is a diverse country and one that is open to the world. It is a meeting point for South America and the Pacific Basin where initiatives, resources and willpower come together to generate prosperity and wellbeing. Centuries of physical and cultural miscegenation in an extraordinarily varied geographical context allow us to both understand and take advantage of the many options and perspectives which converge in today’s globalized world. Our contribution to that world is our creativity and innovatory abilities, our cultural diversity and our biodiversity. Peru is a country in which everyone can recognize him or herself, where all can feel at ease.

Civil society, private business and the State are working together to improve the quality of life. We have confidence in the future and we are committed to the progress of our country. Our economy and our productivity continuously expand in a framework of stability and competitiveness, in harmony with our environment and our cultural values. We reject violence and we possess solid institutions which guarantee freedom, the rule of law and respect for human rights. In Peru, we live in dignity and happiness within a plural society that is ever more integrated, supportive, respectful and hospitable.

In the year 2021, we celebrate the bicentenary of Independence as a prosperous nation, harmoniously integrated into the international community. The rule of law and democracy reign, the majority of Peruvians have access to quality education and employment, we have significantly reduced poverty levels, and there are ever more opportunities available to increasing numbers of citizens. In the certainty of our achievements – and with pride in them – we are the masters of our own destiny."


If it is to carry out this task of coordinating and articulating the design and execution of foreign policy, the Ministry of Foreign Affairs must enjoy a degree of autonomy which guarantees it can operate in a totally professional manner. Political interference in the Ministry’s operational affairs must be avoided, since it could turn what should be long-term state policies into the expression of the specific and short-term interests of one government or another. This means keeping the diplomatic service separate from the pressures implicit in the daily exercise of political power.

If Peru is to have a foreign policy which links it adequately to the rest of the world, it is essential that Peruvian organizations and institutions participate actively in the international arena; that we obtain, process and make public information on regional and global matters; and that we project the image of Peru abroad to stimulate the interest of investors, tourists and the international community. We must stimulate and facilitate the participation of public, private and civil society organizations in international activities, by providing information on commercial, professional and educational overseas, by encouraging participation in events and supporting the incorporation of Peruvians in international companies, organizations and associations.

A satisfactory international insertion demands a considerable capacity to gather, process, elaborate and utilize information on the changing external scenarios; in turn, this requires conceptual frameworks in which the different types of information can be placed and linked, so that their importance is correctly evaluated. In the global transition towards the knowledge society, production of information has grown exponentially. The problem is no longer so much one of gaining access to information as to define priority areas, identify reliable sources, correctly interpret meaning and put the information at the disposal of decision makers. This requires the creation of units specialized in following up trends, in elaborating interpretative schemes, in collating information coming from a wide variety of sources and in presenting the results of these activities in a straightforward manner that can be easily assimilated by political leaders, public officials, businessmen, professionals and all those who consume information. The Ministry of Foreign Affairs and the Secretariat of State for Strategic Planning in the Prime Minister’s office (Chapter 7, Figure 7.2) would be in charge of organizing these units, whose activities should be coordinated with study and research centers, universities, business associations and other civil society organizations.

The international projection of Peru is a key aspect of the active management of international insertion. It involves creating an image capable of attracting investment and tourism, encouraging the positive disposition of the mass media and the acceptance of the community of nations. In the second half of the 1990s, important advances were made in organizing a wide range of activities designed to improve Peru’s image abroad through PromPeru. Yet it is clear that a favorable image cannot be projected
while democratic governance is affected by a series
of political, social and economic problems. In an ever
more transparent and globalized world, countries
cannot project abroad an image which contradicts
what is actually happening internally. For this rea-
son, the articulation of a vision of the future reached
through consensus (Chapter 1 and Box 2.8), and the
design and implementation of a development strat-
egy and institutional reforms (Chapters 3 to 7), are
necessary pre-conditions for Peru to project a posi-
tive image abroad.

Finally, if Peru is to achieve a satisfactory in-
ternational insertion, foreign policy must encourage
the formation of citizens who participate actively in
the processes and activities taking place at the do-
main of networks and the domain of the global. Peru-
vians must overcome an attitude of receptive pas-
sivity to external influences, and be capable of re-
sponding to these influences by projecting what is
happening in the domain of the local – that is, in Peru
– outwards to the rest of the world. This aspect is
closely linked to educational and cultural policy, which
should bestow on all Peruvians the facilities of
judgment they require to perceive, understand and
evaluate the different elements of the fractured glo-
bal order that affects our quality of life and our fu-
ture options. In addition, we should be capable of
contributing to molding the environment in which
we live with our own interpretations and powers to
influence.

Education should link us, not just to our own
reality, but also to what is going on in the world
about us. This implies, among other things, the in-
tensive and compulsory teaching of foreign lan-
guages (particularly English), and courses in history
and contemporary international affairs; these need
to be backed up by a communications infrastructure
which provides access for all to the sources of infor-
mation provided by the Internet.

* * * * *

The social fabric which we must reconstruct
in Peru over the next twenty years is firmly placed
in the framework of a new international context,
whose chief characteristic is the emergence of a
fractured global order. This is the frame which holds
the threads of the weft – the strategic directions –
and those of the warp – the institutional reforms;
together they should make up the design which
reflects our cultural identity and our values. If we
are to construct a frame which can sustain and fa-
cilitate the re-weaving of our social fabric, an ad-
equate management our international insertion and
an appropriate foreign policy are necessary precon-
ditions.
Part Two

A FRAMEWORK FOR STRATEGIC DECISIONS
CHAPTER THREE

PRODUCTIVE TRANSFORMATION AND COMPETITIVENESS
INTRODUCTION

The strategic direction on productive transformation and competitiveness forms the first set of threads in the weft of Peruvian social fabric that must be re-woven in the first two decades of the 21st century. The main components are macroeconomic policies that include fiscal, monetary and exchange-rate policy, financial system reform, trade policy, strengthening and regulating institutions, and active sectoral policies that are in harmony with the market and include the agriculture, mining, fishing, tourism, energy, industry and construction sectors.

In the first two decades of the 21st century Peru must create the foundation for an efficient and competitive economy that generates and accumulates wealth in a continuous fashion, that is integrated in the international economy with high value-added exports and which channels internal savings and complementary resources coming from abroad toward productive investment.

During the 1990s the bulk of macroeconomic imbalances inherited from the Alan Garcia government were corrected and policy reforms were initiated, in particular in the tax and trade areas. Today we face the challenge of continuing a series of more complex economic reforms, which require solid institutions and greater capacity for government management and democracy, in order to move toward long-term stable economic growth, in a market that is both open to the international community and adapted to conditions in Peru.

In the context of regulated economic freedom, the search for a new pattern of wealth accumulation implies a series of agreements and negotiations between capital, labor and the State. The latter must fully assume its role in promotion, orientation and regulation in order to create optimum conditions to achieve prosperity and well being and to facilitate more fluid interaction with the private sector and civil society organizations. The State should guarantee the possibility of generating wealth within a competitive framework. The business sector, for its part, must be willing to take calculated risks, step back from a purely profit-seeking attitude, and share the fruits of its labor with workers by offering them decent salaries and minimum job security. At the same time, workers must be encouraged to identify with their companies and given the opportunity to pursue and fulfill their personal ambitions in the labor field.

If the Peruvian economy is to be transformed and made more competitive, we need to use a broad range of instruments and policies such as those outlined in this and the following three chapters. These cover issues such as equity, integration and social justice, environmental management, natural resources, science and technology, territorial organization and physical infrastructure. Productive transformation must be based on a sustained increase in productivity and capital. In certain cases, the State must adopt specific policies to promote, for example, those economic sectors that have the potential to generate employment in the more depressed regions of the country where there are limited possibilities of attracting private capital. If this is to be achieved, Peru must use public resources with complete transparency, continuously evaluating the impact of promotion measures and being fully accountable to the public.

The varying degrees of regional market development and the characteristics of the ecosystems and social organizations in which they have developed make it necessary for the State to differentiate the instruments and policies it will use to promote productive transformation in the regions. This is particularly true for sectoral policies, as macroeconomic policy must create a stable and uniform framework for productive and service activities.

Within the framework of creating a new pattern of sustained economic growth, macroeconomic stability and discipline are fundamental conditions. However, active sectoral policies must also be designed and adopted. These must be in harmony with the market to promote priority productive sectors, as well as linking macroeconomic policy to sectoral
policies. This is fundamental to achieve a new pattern of wealth accumulation, in which the primary productive sector provides the foundation for the development of productive activities with greater added value. Surpluses from the primary sectors, in particular mining, fishing, hydrocarbons, and to a lesser extent agriculture, will provide the initial impulse for productive transformation, the consolidation of social capital and an improvement in overall quality of life, above all through private and government investment. The aim is to transform natural resources into other forms of capital – social, institutional, physical infrastructure, machinery and equipment, facilities for production – that support the productive transformation process and improved competitiveness.

At the same time, investment in activities with greater added value, support for labor-intensive sectors and a better quality of human resources will make the Peruvian economy more competitive and therefore increase its capacity to generate wealth. If it is

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**Box 3.1**

**Productive clusters around natural resources**

The accelerated development of Latin America and the Caribbean, a region rich in natural resources, will depend on how fast it learns to industrialize and process its natural resources and to develop activities that provide related inputs and equipment. This development must be based, not so much on the extraction of natural resources, but on natural resources and the productive and service activities that tend to form around them (clusters). It will differ, therefore, from the experiences of recently-industrialized Asian countries with limited natural resources. Rather, it will resemble those of currently developed countries rich in natural resources, such as the Nordic countries, Canada, Australia and New Zealand, that have been able to successfully transform income derived from their natural resources into income from greater productivity.

Many countries that are rich in natural resources have tended to squander the income received from them during booms in raw material exports, instead of investing in improving productivity that will allow them to grow during periods of depressed world demand for these products. This disappointing outcome is rooted in the inability to convert income associated with natural resources into income derived from advances in production and services with greater technological content.

In and of themselves, natural resources do not ensure development; rather, they offer an opportunity that we must take advantage of. This requires a development strategy that does not prioritize extraction and the simple processing of natural resources, but instead favors the acceleration of multiple activities that tend to cluster around such resources, without contradicting the natural tendencies of the market. There is also a need to strengthen links with activities that provide supplies, equipment and engineering (backward linkages), as well as with processing activities and those that use natural resources (forward linkages). The following diagram shows the development phases of a productive cluster based on natural resources.

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**Evolution of a cluster related to natural resources**

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXPORTS</td>
<td>Raw natural resources</td>
<td>First level of processing</td>
<td>More specialized processing at the first level. Second level processing</td>
</tr>
<tr>
<td>INPUTS</td>
<td>Imported</td>
<td>Import substitution of principal inputs to the domestic market</td>
<td>Export of inputs</td>
</tr>
<tr>
<td>MACHINERY</td>
<td>Imported (locally repaired)</td>
<td>Production under license for the domestic market</td>
<td>Export of basic machinery to less sophisticated markets, development of more specialized equipment</td>
</tr>
<tr>
<td>ENGINEERING</td>
<td>Semi-imported</td>
<td>National</td>
<td>National</td>
</tr>
<tr>
<td>– Production</td>
<td>Imported</td>
<td>Partially national</td>
<td>National</td>
</tr>
<tr>
<td>– Project design</td>
<td>Imported</td>
<td>Partially national</td>
<td>National</td>
</tr>
<tr>
<td>– Consultancy</td>
<td>National</td>
<td>National, except for specialized consultancy</td>
<td>National</td>
</tr>
</tbody>
</table>

to attain these objectives, the State must promote the creation of productive clusters around its natural resources (Box 3.1), encourage scientific research and technological development in priority productive sectors (Chapter 5), and provide incentives for environmental protection and the use of clean technology to convert Peru into a leading nation in the sustainable use of natural resources over the next two decades.

MACROECONOMIC POLICY

A first group of threads in the strategic direction on productive transformation and competitiveness involves macroeconomic policies; these should create favorable conditions for private initiatives, state regulation and the participation of civil society in the creation of wealth. The macroeconomic imbalances that characterized previous decades – such as high inflation levels, abrupt devaluations, elevated fiscal deficits, gaps in the balance of payments and excessive public borrowing – must be definitively eschewed in order to achieve the stability that will guarantee an adequate distribution of resources through competitive, efficient and adequately regulated markets.

Stabilization and reforms in the 1990s

Economic distortions and imbalances inherited from the Alan Garcia government, compounded by the impact of terrorist violence, meant it was necessary for President Alberto Fujimori to implement a drastic stabilization program in the early 1990s to correct the main macroeconomic problems and reinsert Peru into the international financial community. The aim was to make competitive markets the main mechanism for allocation of resources; this was a reaction against the excessive state intervention of previous years (Box 3.2). Private investment, with no state intervention whatsoever, was to be the main source of capital accumulation, substituting the role that public investment had played in the past. In this view, the private sector was seen as the main motor for growth in a country that would be more integrated in the world economy.

The stabilization program

The most important objectives achieved by the stabilization program instituted in 1990 were the elimination of internal and external economic imbalances – manifested in hyperinflation and the balance of payments crisis respectively – and the building of a foundation for the country’s financial reinsertion (Figure 3.1). However, the stabilization measures were accompanied by inconsistent monetary and exchange rate management, which suggests that the authorities were not willing to assume the full cost of a floating exchange rate. Figure 3.2 shows that in 1998, despite the depreciation associated with the international crisis, the real multilateral exchange rate index was 13% below the average registered in the 1970-1994 period, which partly explains the growing deficit in the balance of payments.

Fiscal fragility, unstable monetary policy and inflation of the currency helped to push up interest rates in soles during the initial stabilization period. These remained high even after 1994, as can be appreciated in Figure 3.3. On the other hand, the reduction
Economic policy in Peru has experienced several pendulum-like swings in the past half-century. Prior to the adoption of the Industrial Promotion Law in 1959, the primary-exporter strategy prevailed; it was highly dependent on foreign investment and characterized by tight fiscal and monetary discipline and by a modest degree of state intervention. This strategy had failed to solve the dualism between the small modern sector and the predominant traditional sector; neither did it tackle the problems of extreme poverty, unequal income distribution and vulnerability to events abroad, principally to deteriorating terms of trade.

Industrialization via import substitution was characterized by a more active role of the state in the economy. Trade policy, with a clearly protectionist bias, was accompanied by a certain relaxation in fiscal and monetary policy. However, industry proved incapable of generating sufficient income to import supplies and capital goods. This generated a deficit in foreign accounts, expressed in successive crises in the balance of payments (1967-68, 1975-77), making it necessary to apply severe economic adjustment programs. Debt service limited public spending from the mid-1970s and, as of the first half of the 1980s, it became materially impossible to pay under the terms of the original agreement.

Protectionism and state intervention reached their height under the government of General Juan Velasco Alvarado (1968-1975) government, but the fall of this regime did not mark the beginning of a new economic strategy. The 1975-1990 period was characterized by short-term pendulum-like changes and a growing macroeconomic imbalance, unleashing an unprecedented crisis during the Alan Garcia Perez government (1985-90). Clear examples of the advances and retreats in Peruvian economy policy included episodes of macroeconomic adjustment (1978-79, 1984-5, and 1988-89), non-sustainable expansionist periods (1980-83, 1985-87, 1989-90), a frustrated attempt to open up the economy (1979-1982), the subsequent re-establishment of protectionist policies and diverse efforts to refinance the foreign debt without accompanying fiscal adjustment programs.

The anti-exporter bias of the economic policy, inconstancy in the rules of the game and limited investment in export activities contributed to the unfavorable performance of the export sector. A lack of dynamism in exports, the exhaustion of the internal growth strategy pursued until that point, and growing macroeconomic disorder was reflected in a reduction in the value and efficiency of investment. Private investment (as a percentage of GDP) fell from 20.2% during the 1960-1975 period to 16.3% during the 1976-1989 period. The distortion of the capital market and artificially low interest rates, which led to real negative rates, bred excess demand for credit; this in turn led to its rationing.

The reduced efficiency of investment was associated with a fall in the total productivity of economic factors that was more pronounced in Peru than in other countries in the region. Economic stagnation impoverished large sectors of the population. This situation grew worse with the widening fiscal deficit, chaos in the exchange rate policy and the foreign debt crisis that gave way to hyper-inflation and international financial isolation at the end of the 1980s.

The macroeconomic situation deteriorated even more rapidly between 1989 and 1990, with inflation reaching a monthly 60% in July 1990. Price controls and subsidies deepened the multiple distortions in the relative price structure. Tax revenue fell to 4% of GDP and economic activity contracted for three consecutive years. At the same time the balance of payments registered an enormous deficit and international reserves in the Central Reserve Bank of Peru were negative.

The situation motivated the application of an orthodox adjustment program in order to stabilize the economy, reduce the State’s participation and create the conditions for the private sector to assume a more prominent role. As a result, at the beginning of the 1990s, a fresh cycle began under a new economic model.

Inflation dropped to below 10% a year after the end of 1995. At the same time, in contrast to the initial recessionary effects of the program, as of 1993 the economy began to register a high growth rate, a dynamic that was partially interrupted in 1996. The economy resumed growth in 1997, only to be affected in 1998 by two external shocks, the El Niño phenomenon and the international crisis, which worsened the deficit on current account.
Structural reforms

Macroeconomic stabilization was accompanied by some structural reforms, which marked a fundamental change in the legal framework that governed economic activity in the country. Tax reform and public sector restructuring constituted two fundamental elements to confront the central problem that emerged from the macroeconomic disorder: the deficit in public finances.

These reforms and several others, such as a process to grant land titles, modified the goods market and productive factors; that raised the level of economic competitiveness. These were necessary steps to create a potentially successful market economy. However, some markets are still distorted by existing legal norms and others require highly complex and specific regulation schemes that take their specific characteristics into account (for example, telecommunications and water distribution markets).

A series of modifications in the tax structure and administration (the number of taxes, rates, exonerations and differentiated treatment based on sectors or regions were reduced) led to a simplified, more transparent system marked by fewer distortions. However, tax reform did not translate into a swift and significant increase in revenue. High tax evasion, the main obstacle to increasing revenue, had a perverse effect on the tax structure. In effect, a shortage of fiscal income postponed the elimination of highly distorted taxes (such as the tax on net assets and Fonavi) and the introduction of a tax drawback on exports created the danger of an anti-exporter bias. On the other hand, an analysis of tax income sources suggests the need to increase the tax base in order to avoid concentrating collection on the main taxpayers (Figure 3.4).

The downsizing of the state apparatus, in particular the closure of a series of government agencies, the liquidation and privatization of public companies and a reduction in the number of public employees, made it possible to partially decrease public spending and significantly reduce the state's presence in productive activity; this had a positive effect on public finances and generated greater efficiency in the economic system. As of December 1998 accumulated privatization revenue had reached nearly US$6.4 billion, of which only US$1.5 billion now remains in the Treasury. The rest was used for defense, social investment, the Consolidated Reserve Fund and the National Public Savings Fund. However, the lack of transparency and opportune information about the use of privatization revenue meant that the process has been severely questioned.

A series of additional reforms targeted the creation of competitive markets. Price controls were eliminated, freeing up the goods market. Commercial reforms eliminated quantitative restrictions on imports and tariff exonerations and reduced the number of tariffs and their maximum rates. Tax structure became more uniform: more than 90% of import duties were subject to a 12% regime while the remainder paid 20%. In the non-tradeable sector of the economy, the government eliminated a series of legal barriers that artificially protected some productive activities.

Source: Superintendencia de Banca y Seguros. Web page http://www.sbs.gob.pe

The capital market was essentially liberalized from the beginning of the stabilization program and much more swiftly than the goods market. Interest rate ceilings were eliminated as were exchange rate controls, while a regime of total capital mobility was introduced. Legal norms that governed financial activity were modified and the sector was opened up to foreign investment; the possibility of it being negatively affected by government decisions (for example, by the imposition of non-remunerated reserve requirement rates) was also reduced. The state reduced its role in this market with the liquidation of the state development and "associated" banks, the privatization of the state-held banks and the sale of state holdings in other financial institutions. At the same time, the insurance market was also freed up. Finally, in order to protect the interests of depositors, a special Insurance Fund was created and the Banking and Insurance Superintendency modernized.

The liberalization of the capital market did not bring about the hoped-for reduction in high intermediate margins and interest rates, whose levels created obstacles for the expansion of productive and service activities. On the other hand, while it facilitated a significant influx of capital that partially alleviated the recessionary pressure of the adjustment program, the liberalization of the capital market also led to a strong real-terms appreciation.

An effort was made to make labor legislation more flexible (in terms of labor stability, minimum wage and the right to strike) and an obligatory pension fund system was introduced with the participation of the private sector. The reform facilitated the adaptation or restructuring of companies in line with the new macroeconomic scenario and reduced to some extent the informal sector of the labor market. Consequently, productivity rose in a series of formal sectors. In contrast, labor market reforms increased the precarious nature of employment and swelled the ranks of the urban jobless and underemployed.

**Financial reinsertion**

In order to end Peru's isolation, the government recommenced debt servicing with the multilateral organizations in the second half of 1990. As part of this process, agreements were signed with the International Monetary Fund, the World Bank and the InterAmerican Development Bank; these established a large number of conditions for the design and implementation of economic policy. Financial reinsertion fueled the credibility of the economic program, and provided guarantees with respect to the policy reform underway. The negotiation process with other creditors – the commercial banks, the Paris Club, non-secured suppliers – was completed at the end of 1996. The Brady Plan for Peruvian debt restructuring was signed in 1997. These negotiations meant, together with swapping commercial debt for Brady bonds, that the total public debt was reduced from approximately US$24 billion in the mid-1990s to US$19.5 billion toward the end of the decade.

The renegotiation of the public debt means that Peru must pay more than US$1.8 billion a year to its creditors during the first decade of 2000. At the same time, the reduction of the total public foreign debt has been accompanied by a significant increase in the private debt with foreign creditors toward the end of the 1990s, principally due to short-term loans contracted with commercial banks that operate in Peru (Box 3.3).

**Macroeconomic policy and development strategy**

The economic stabilization and reform process that began during the 1990s must be consolidated in order to adequately sustain productive transformation, competitiveness and economic growth. The pillars to sustain this consolidation must include a firm fiscal policy, a non-distorted price structure, transparent fiscal, monetary and exchange rate regulations, the reduction of the current account deficit, and the reform and strengthening of the financial system as a whole.

Given that it is essential to maintain macroeconomic stability, continue the battle against inflation and increase tax pressure to maintain fiscal discipline, the only components of aggregate demand that are capable of promoting growth in the short term are exports and private investment. These should be the most dynamic components of demand and must become the motors of economic growth. Moreover, expansion of these areas is not only necessary to maintain fiscal discipline in the short term but will also help to establish a new pattern of economic growth that is more viable in the medium and long term.

There is also a need to establish policies to guarantee access to transparent and reliable statistical information, that covers all key aspects of the economic situation and which should be available in a timely fashion to all economic agents. This will allow companies, government agencies and citizens in general to obtain necessary information for planning and decision-making, something that was not possible in the 1990s, a period in which GDP and
Peru had difficulties paying its foreign creditors long before the foreign debt became a world crisis. Three rounds of talks that began in 1968 preceded the symptoms of insolvency that affected the majority of Latin American nations during the 1980s. Peru joined the list of problem debtor nations in 1983 when the government requested a reprogramming of the debt with its official Paris Club creditors. The international private banking system provided new credit to refinance payments that fell due between February 1983 and February 1984, while macroeconomic difficulties during this period made it necessary to call on new funds from the international banks to cover external funding gaps and to refinance payments for the fifth time in less than 20 years. At the same time, debt service payments with the Soviet Union that should have been paid between 1983 and 1985 were refinanced using payment in kind.

In the mid 1980s an agreement was reached with the commercial banks, but it was not implemented because the country was unable to fulfill the prior condition of meeting targets agreed with the International Monetary Fund. Peru also failed to completely fulfill the new agreement with the Paris Club that covered principal and interest payments matured prior to July 30, 1985. As of mid-1985 the Alan Garcia government unilaterally restricted foreign debt payments to nearly all creditors (excluding the short term debt, debt payment in products and debt contracted after July 1985) and assigned up to 10% of the value of exports for this end. As a result, Peru’s relations with all creditors broke down. On August 15, 1986 Peru was declared ineligible for IMF resources, and subsequently access to new loans from the World Bank and the InterAmerican Development Bank was cut off. As of 1990 commercial banks – as individuals or as groups – filed 57 lawsuits against the Republic of Peru and against some state-owned companies and national financial organizations.

The Alberto Fujimori government reopened talks with multilateral organisms as a first step toward achieving Peru’s reinsertion in the international financial system. It set up a support group that contributed around US$1 billion at the end of 1990 to begin clearing up overdue payments with international finance organizations (which had reached nearly US$990 million with the IMF and some US$850 million with the World Bank). Shortly thereafter, the IMF incorporated Peru into the rights accumulation program (which restored access to IMF funds) and the World Bank made a similar arrangement. A loan from the Latin American Reserve Fund (FLAR) made it possible to clear past-due payments with the InterAmerican Development Bank. As a result, several loans were disbursed that permitted Peru to cover overdue payments and secure bridging loans with all the international financial organizations. All of this allowed Peru to once again be accepted as eligible for international credit.

Subsequently, negotiations began with official creditors grouped in the Paris Club, culminating in a deal to consolidate debts and payments (for 20-year periods in the case of the commercial debt and 22 years in the case of the concessional debt). Peru can be said to have “graduated,” as it will not renegotiate with these creditors in future.

Negotiations with creditors from the international commercial banks resumed as of 1990 with the signing of agreements to temporarily suspend lawsuits and the application of statute of limitations on Peruvian debt. The government took some measures to facilitate an agreement with commercial banks (for example the state assumed the debts of public firms to be privatized and recognized questionable debts linked to the purchase of two ships by the Compañía Peruana de Vapores). At the end of 1994 an agreement in principle was reached in the framework of the Brady Plan, which had the financial support of international bodies to cover its initial costs. The final deal included discount bonds, par bonds, reduced interest bonds, payments for past-due and unpaid interest, as well as Peru’s “silent” debt buy backs.

Moreover, debts both with the former Soviet Union and with unsecured suppliers were renegotiated. As a result, by the end of 1997, the entire Peruvian debt had been renegotiated.

These negotiations reduced the foreign public debt by nearly US$5 billion, bringing it down to US$19.5 billion at the end of 1997. As a result of these debt agreements, Peru will have to meet significant interest payments and amortizations to creditors, above all during the first decade of the 21st century. For example, payments to the international organizations are at least US$500 million a year and those to Paris Club creditors amount to some US$900 million a year while payments to Brady bond holders, unsecured suppliers and the former Soviet Union total some US$400 million a year. Around 70% of this debt, corresponding to the multilaterals and the Paris Club, is not negotiable and practically impossible to restructure should Peru run into serious financial difficulties.

other figures were not adjusted to compensate for the effect of hyperinflation at the end of the 1980s and the beginning of the 1990s. For example, official GDP estimates and those carried out by independent research centers differ by nearly 20%.

**Fiscal policy and public finances**

A restructured public sector is a necessary condition to maintain low, stable inflation; this will permit better use of resources and promote economic growth. Fiscal cleansing means not only eliminating the current fiscal gap but also avoiding future fiscal deficits. The central problem of public finances lies in the contrast between current levels of income, spending and funding for the consolidated fiscal sector on the one hand, and medium-term financial solvency on the other. In this context, the initial level of indebtedness, interest rates and economic growth will determine the required (or permitted) primary surplus (or deficit) in order to maintain the solvency of the public sector.

Low fiscal income constitutes one of the main obstacles to consolidating the stabilization effort. Limited tax collection—still below 14% of GDP nearly a decade after the stabilization program was initiated—makes it impossible to finance the basic state expenditure (on infrastructure, security, education or health) or eliminate the highly distorted taxes that still exist. As a result, there is a need to move toward a tax structure that prioritizes collection based on income tax and progressively reduces the burden on productive factors (capital and work).

Currently, there is a high level of tax evasion as regards direct taxes and sales tax (IGV, above all on domestic sales). Despite the effort of the tax authority and the customs agency (SUNAT and SUNAD, in their Spanish initials) to improve tax collection, it is clear that there is a need to increase tax revenues by broadening the tax base. The medium-term objective will be to gradually increase revenues until they reach an annual 20% in a 10-year period, in line with international averages.

At the same time, when the government found itself unable to adequately increase fiscal revenues, it opted for proportionately adjusting its spending. This adjustment was carried out at the expense of a marked reduction in public sector wages. In a longer-term perspective, underlying gaps beneath the apparent fiscal balance are becoming more noticeable: these have been building up and now threaten public management capacity. Moreover, the weak fiscal position has negatively affected public investment levels.

State spending should have more impact on the economy. Increased fiscal income should be used to grant incentives to the private sector, directly or in the form of public services and goods. In order to ensure sustained investment growth, the State could encourage reinvestment or discourage, through taxes, distribution of dividends, while graded income tax should grant preferential treatment to direct or equity investment by individuals. Support for investment and the creation of jobs should also materialize through incentives for small and medium-sized businesses (PYMES, in their Spanish initials). This process should be anti-cyclical in order to reduce the negative impact of external problems on the economy, such as the international crisis of 1997-1998. However, bearing in mind that the state should reduce tax exemptions to a minimum, incentives should be granted as subsidies, in a completely transparent fashion. Any subsidy should be labeled as such in the budget, avoiding exonerations that distort market price formation and making for more efficient oversight and accountability.

At the same time, an effort should be made to ensure the quality of public spending based on objectives outlined in a context of strategic planning and programming. The distribution of public financial resources, at a regional, sectoral and functional level, transparency of implementation and flexibility in their use on the part of those responsible in each sector, are crucial in determining the effectiveness of fiscal policy. Currently, the pattern of public spending observed in annual budgets does not respond to an annual or multi-annual program, or to sectoral operating plans.

In addition, there are no mechanisms to evaluate spending or investment and no reliable information about the financial administration of the public sector. These limitations are particularly significant in the case of public investment, where there is a need to recreate the capacity to socially evaluate projects. There is a need for considerable progress in terms of monitoring public finances. In this sense, it is possible to apply the Public Expenditure Review guidelines developed by the World Bank, which recommend a program to periodically evaluate spending, initially of budget items reviewed at the end of each tax year (Box 3.4).

Another overriding objective is the decentralization of public spending. Collection is more efficient if it is centralized but, in contrast, the transfer of funds to local governments should be automatic, in other words, decentralized. Municipalities should manage around 15% of the budget in the medium-term, in particular in the areas of
health and education. Parallel to this, local tax collection capacity could be increased, something that would be strengthened by the decentralization process. Local governments must have unified accounting criteria in order to ensure better control of income and spending. The principle of solidarity and redistribution among regions should also be applied, because, while some may generate more revenue than others, their spending is also higher in order to reduce existing inequalities.

It must be taken into account that the relatively lax fiscal situation since the mid-1990s is partly due to income from privatization. However, the extraordinary and non-recurring nature of this income must be emphasized. Under no circumstances should it be used to finance current spending; it should rather be used for such purposes as increasing assets, investing in technology and reducing the liabilities of the state.

**Monetary and exchange rate policy**

The second pillar upon which the stabilization process should rest involves correcting the over-valuation of the currency (Figure 3.2). In effect, the real exchange rate index in 1998 was 18% below the average registered in the 1970-1992 period. This partly explains the persistent trade deficit that has put a brake on long-term growth possibilities and should be a fundamental reason for adopting a macroeconomic policy that has concrete objectives in this area.

Monetary authorities have repeatedly demonstrated that they are not prepared to live with the consequences of a floating exchange rate and have continually but inconsistently intervened in the market. The pursuit of multiple goals with very few tools explains these inconsistencies. As a result, the exchange rate policy is a source of uncertainty and has not contributed to efficient economic stabilization. In order to circumvent this problem different options must be carefully evaluated in permanent consultation with representatives from the private sector, and exporters in particular. Correction of currency over-valuation has costs that must be assumed in terms of small increases in the inflation rate and increases in the debt load of firms.

An essential objective is the “sol-ization” (the reverse of dollarization) of the economy, in order to enable the Central Reserve Bank to manage monetary policy with greater sophistication. Measures that encourage transactions in soles should be implemented. Additionally, it would be possible to test – in a context of low inflation – the issue of funding sources subject to constant revaluation, indexed to inflation, in order to minimize risk and offer financial agents a safe savings alternative. This will make it possible to re-monetize the economy, as well as increasing demand for national currency. Re-monetization is an endogenous and desirable phenomenon that usually results from improved macroeconomic indicators (low inflation) and economic growth levels.

In this context, Central Bank control of money supply will improve, allowing it to establish its goals in a prudent, independent manner. However, monetary unification schemes are being promoted as part of the integration process that may not be compatible with the adopted system. In future, therefore, this system could be abandoned in favor of a unified scheme, provided any negotiation is multilateral and the scheme is adopted simultaneously in other countries in the region.

As subsidies were eliminated at the beginning of the decade, the fiscal adjustment translated into a significant increase in prices that reduced liquidity in real terms. This contraction was accompanied by financial liberalization, the total opening of capital accounts and a monetary policy based on goals related to increasing the monetary base. Given that the expansion target for money supply was lower than the level needed to satisfy increasing demand resulting from the decline in inflation, real interest rates in national currency increased (Figure 3.3) and the capital influx led to a real appreciation in the currency.

This focused attention on the problem of sustaining the balance of payments. Since 1991 the trade balance has registered worrying deficits. Given Peru’s structural deficit in its services balance, the trade gap has been reflected in current account deficits in the balance of payments, which have been financed with capital flows that are, even in the very best case scenario, unlikely to be sustained. The deficit on current account is worrisome as it has surpassed levels that sparked balance of payments crises in the past such as those in 1975-1976, 1981-1982, and 1987-88 (Table 3.5).

Foreign debt service must be considered when analyzing the outlook for the balance of payments, as fulfilling agreements with creditors will have a significant impact on the national accounts in the 1999-2002 period. While a recession context (one that slows imports) and an increase of raw material exports provides short-term relief in the trade balance, this issue must be addressed in any long or medium-term proposal.
The organizational structure and the procedures for the distribution and control of Treasury resources, mainly through the budget, are not designed to facilitate the definition of priorities and distribution of resources based on impact criteria and effort or to appropriately evaluate the implementation of public spending. Currently, the main management problems in allocating resources are due to the following:

- There is no office in the Ministry of Economy responsible for establishing criteria and priorities for investment projects and programs and public spending.
- There is an excessive concentration of budget decision-making power in the Vice Ministry of Finance and a significant fiscal centralization in Lima and the central government.
- Procedures to define the payment schedules are rigid and complicated; this affects decision-making on the part of government agencies.
- Monitoring and control of public spending is weak and not related to management indicators, which for the most part are non-existent.

A combination of bureaucratic procedures and excessively detailed regulations make it, on the one hand, very difficult to adequately supervise executive branch entities. On the other, we lose sight of the reason for controlling public spending, which is to ensure the adequate use of public resources based on national and sectoral objectives.

If we are to improve the allocation and control of public resources, we must modify procurement procedures, personnel systems, management indicators, public tenders, hiring of consultants, provision of services and other similar factors, as well as modifying the attributes and operating procedures of the Comptroller General’s office and the internal auditing offices of ministries and other public dependencies. The central objective should be to achieve results in line with performance and spending, which does not currently happen.

The principal aspects that should be included in the reform of the national budget management system are:

- The need to estimate future budgets and to plan spending over three or four years, making it possible to transfer a percentage of the budget that has not been spent into the following year, and to advance spending in special circumstances. This will encourage government agencies to think and operate with a sense of strategy.
- The drafting of the overall budget for the public sector should be the responsibility of the Secretariat of Programming and Budget, and the review of its implementation, with impact evaluation and performance criteria, should be carried out by the Secretariat of Strategic Planning; both of these answerable to the Presidency of the Cabinet, based on the executive branch reform proposals outlined in Chapter 7.
- Each of the eight proposed ministries should have a budget office that presents its proposals and priorities for the assignment of resources in its respective sector. This implies a significant reduction of the current power of the Ministry of Economy (to be transformed into the Ministry of Finance) and the Ministry of the Presidency, which will be eliminated. Ministries responsible for social spending (Chapter 4), environmental and natural resource management (Chapter 5), and territorial organization and physical infrastructure (Chapter 6) will be given priority.

Congress and civil society organizations must play a more active role in reviewing and evaluating the budget, both for the central and for local governments. Information must be made public and deadlines to provide information about budget implementation must be modified so that information necessary to assign public spending in the following fiscal year can be made available.

- The administration of financial resources, in particular with regard to personnel costs, should be much more flexible. There is a need to change the regime related to personnel hiring and salaries, decentralizing decisions and granting greater autonomy to those responsible for budget execution in each of the public administration areas.


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**Financial system and domestic savings**

The Peruvian financial system has a great weakness. Its dependence on foreign credit lines and high intermediation costs associated with insufficient internal savings and perceived country-risk, have created a distorted credit market.

The persistence of high interest rates, despite control of inflation, suggests that bringing down intermediation costs will involve reducing the reserves requirement for deposits in foreign funds. The current rate is excessively high and unnecessarily increases the cost of intermediation in foreign currency. It is essential to encourage a reduction in this rate and, after the system adapts to an initial adjustment, to continue reducing it on a gradual basis.

The banking system should be consolidated to a small number of relatively large Peruvian and
foreign banks (around half a dozen), complemented by some specialized small banks, in order to generate economies of scale in the banking business and reduce financial costs in a highly competitive climate. Parallel to this, the process should be strengthened by encouraging an increase in domestic savings which should come to represent, in the medium term, at least 25% of GDP and be complemented by foreign savings that should reach approximately 3% of the GDP.

Encouraging domestic savings is essential to avert competition between the public and private sectors for scarce resources. A coherent public sector borrowing policy, in line with payment capacity, will contribute to strengthening internal savings. It is important to avoid excessive dependency on foreign funding, in particular multilateral loans. A balance must be achieved between these, which are rigid and have many conditions, and other, more flexible internal and foreign funding sources.

The aim is that the main financial agents - Pension Fund Administrators (AFPs, in their Spanish initials), workers, investors, and in particular private companies, save in the national financial system. It is necessary to attract capital and increase compulsory savings, such as Length of Service Compensation Fund (CTS, in its Spanish initials) and pension contributions, in order to strengthen Peru’s capital markets. The intervention of regulators should reduce any risk of collapse in the pension system to a bare minimum, in order to ensure long-term solvency and sustainability, as well as to open up the way for constant monitoring of the performance of AFPs and their administrative spending. CTS savings could be encouraged by allowing them to be used as collateral in housing construction (Chapter 4).

At the same time, it is important to encourage wider public participation in savings. Even low-income sectors are willing to save if, together with obtaining an attractive interest rate, this gives them improved access to valued goods and services. This is clearly demonstrated by the experiences of other countries that have institutional pension plans, prior savings mechanisms that provide access to housing subsidies, and savings and credit instruments for education and training.

The equity market for investment in education deserves special attention as, with an efficient system of collection and guarantees, it could prove attractive for the financial system (Chapter 4). Social security and AFP collections systems could be used, by enhancing their function as a compulsory savings mechanism with those of discounts and automatic reimbursements of education and training credits. In a complementary fashion, the creation of secondary markets of borrowing instruments for education and training could be promoted: these would reduce risk and give such investments greater liquidity.

The fundamental objectives of the policy to strengthen the financial system include reducing the financial costs of businesses. One of the central problems in this area is the very high spreads between interest rates on loans and deposits. In effect, the current rates on deposits in the banking system are below what could be considered their long-term level. This situation of excessive differentials in interest rates discourages private investment due to its negative effects in the competitiveness of the export sector.

The reduction of these differentials depends on a series of factors. Some economic policy measures, such as the high reserves requirement for foreign currency deposits and the tax on assets, distort intermediation costs, affecting rates to bor-

![FIGURE 3.5 Balance on current account (as a percentage of exports)](http://www.bcrp.gob.pe)


rowers. At the same time, the correction of the exchange rate lag and the implementation of a more transparent and stable monetary policy would contribute to reducing interest rates in national currency. On the other hand, it is worth remembering that financial institutions use these high margins to try and compensate for the effect of their bad debts portfolio on their results.

There is also a need for a very active second tier banking sector, that will provide guarantees for
loans through private financial institutions (and possibly other types of entities that provide financial support such as cooperatives, municipal and rural savings unions), in order to bring down financial costs for small and medium-sized companies. In general these firms do not have a long credit history and are not eligible for banking credit due to the strict demands for guarantees and documentation. These firms would also benefit from having access to the Lima Stock Exchange, creating an alternative arena with less stringent demands to access lower cost financial resources (Chapter 7). In this way, the recapitalization of firms would be encouraged and a more adequate investment level ensured.

Another important aspect of financial sector policy in the search for stability and economic growth is the implementation of measures to encourage certain types of foreign capital flows and discourage others. The inflows of capital from abroad will allow internal savings to be greater than national production. This, in turn will make it possible to finance the current account deficit. However, not all capital flows are necessarily beneficial. The entry and exit of short-term capital can cause undesirable fluctuations in the exchange rate and the domestic interest rate, as well as threatening the stability of the banking system, given its high degree of dollarization.

It is essential to encourage a net positive flow of long-term capital, which should be aimed at funding investment projects. Among other things, Peru must pre-empt a situation where net flows from multilateral organizations turn negative. At the same time, this will oblige the public sector to develop attractive and fundable investment projects for these institutions. Once again, this emphasizes the need to re-establish and consolidate the social evaluation capacity of the projects within the public sector and set up a public investment planning and rationalization office. At the same time, and perhaps most importantly, it is necessary to create and maintain a propitious framework for foreign investment, above all in projects linked to the transformation of our natural resources and the creation of related productive clusters (Box 3.1).

Trade policy

In the short and medium term Peru’s trade policy should aim at an aggressive promotion of exports and a low tariff system, with import duties around 10% and little variation between rates. Among other aspects, a staggered scheme with little variation will encourage the acquisition of capital goods by industrial firms and the renewal of machinery and equipment for production.

Tariffs will no longer be a trade policy instrument in the medium and long term, as the bilateral and multilateral agreements to which Peru is a party are tending toward the elimination of tariffs. As a result, Peru must be prepared to fulfill already signed integration and liberalization trade agreements and others that are being negotiated (Chapter 2). The fulfillment of the agreements will also require the elimination of additional charges on foreign products, such as surcharges or excessive quasi-tariff rates. We need to prioritize integration agreements that allow us to compete in better conditions, in the following order: The Andean Community (CAN), the CAN-Mercosur integration, the Free Trade Area of the Americas (FTAA) and the Asia-Pacific Economic Cooperation forum (APEC). Tariff elimination agreements should also follow that order.

Trade policy and incentives for the export sector - tax drawbacks, lines of credit, information about potential markets for Peruvian products, publicity campaigns, among others – should aim at rapid growth of exports with greater added value and a reduced dependency on foreign funding. Together with policies to encourage domestic savings, the capacity to generate profit will encourage funding for investment that is more in line with economic growth possibilities.

Exports and the generation of foreign exchange should be one of Peru’s central policy pivots and become the motor for a new pattern of economic growth. The capacity to generate foreign exchange is linked to the dynamism evident in some sectors of the economy, and which go beyond the traditional primary sectors, such as mining and fishing. However, in the 1990s, the nontraditional export sector has been hard hit by the exchange rate lag and the high costs of non-tradeable services such as energy, transportation, ports, public services, financial services, taxes and security. The lack of dynamism in the nontraditional export sector is evident. In the past two decades it has not had sustained growth. In the same period, countries like Chile and Colombia have seen substantial growth in their nontraditional exports.

The lack of dynamism in the export sector threatens the economic reforms implemented over the last decade. In order to maintain the macroeconomic stability that has been achieved at such great effort, it is essential to correct the distortions that discourage export growth, in particular exports with greater added value and the capacity to generate employment. As long as the exchange rate lag is not corrected, Peru’s export sector cannot be expected to grow significantly. Moreover, export recovery demands that we do not continue to "export taxes" in
the current magnitude. There is a need to perfect tax return mechanisms in order to safeguard international competitiveness.

**Institutions and Regulation**

Progress has been made in reducing personnel from an oversized state apparatus, but true state reform has not been implemented (Chapter 7). The qualifications and productivity of public employees have not improved and their salaries continue to be very low (with the notable exception of a very small number of temporary advisors in some government departments, many of them recently created). This situation has not encouraged young professional people or more qualified personnel to join the public sector in a permanent capacity.

On the other hand, the government’s privatization process has underscored the need for the State to play a regulatory role, as well as the importance and the benefits that come with good regulation. In sectors characterized by the natural imperfections of the market (telecommunications, energy, potable water, among others) the State has played an important regulatory role during the 1990’s, in contrast to the entrepreneurial role it played in previous decades. Regulation is also necessary to preserve competitive conditions in the different markets, primarily through the detection and elimination of monopolistic or noncompetitive practices.

One of the pillars upon which the success of reforms will rest is efficient state management. Re-structuring at every level and in all sectors is a necessary condition for the success of reforms. In second place, public institutions responsible for regulation, tax collection, promotion of competition and the promotion of public services must be strengthened. A great deal of progress has been made in modernizing the Banking and Insurance Superintendency (SBS), Sunad, Sunat, the Pension Funds Superintendency and the Institute for the Defense of Competition and Intellectual Property Rights (INDECOPI). Regarding the regulation of the environment and the exploitation of natural resources, it is also crucial to harmonize knowledge, preservation and use of natural resources as well as to create and enforce regulations on reducing pollution and environmental protection (Chapter 5).

A government entity dedicated to generating, coordinating, evaluating and promoting public and private investment projects must be created (Chapter 7). This entity will also be a central point for the gathering, processing and dissemination of information about investment opportunities. This need becomes even more crucial in a context in which the country has important resources coming from privatizations and multilateral organizations; yet it does not have spending capacity due to the absence of an appropriate project portfolio. If this situation is not reverted, the state’s limited management capacity will hold back Peruvian development and could lead to a net negative transfer of resources with the multilateral organizations in the next few years.

Finally, it is essential to restructure and strengthen the judicial system (Chapter 7), by establishing a minimum of juridical stability and strengthening property rights. Legal stability and an impartial and efficient justice system are necessary conditions to promote significant investment in the country; investment demands clear and stable rules or it will move to other markets that offer better conditions. Legal instability increases levels of country risk perceived by the investor, who demands both a high return on projects and short-term recovery horizons.

**Sectoral Policies**

A second component of the weft that forms the strategic direction on productive and competitive transformation refers to active sectoral policies; these should be in harmony with the market and should facilitate a transition toward a new pattern of income accumulation, capable of generating wealth and opportunities for all Peruvians. There is a need to promote the most important productive and service sectors in order to transform the Peruvian productive sectors, in particular farming, mining, fishing, tourism, energy generation, industry and construction.

The agricultural sector deserves special attention due to its capacity to generate employment, its contribution to food security and its export potential, as well as agro-industry’s potential to generate surplus and wealth. Primary sectors, such as mining and fishing, which are capable of generating high levels of income and surpluses, should provide the initial stimulus for productive activities with greater added value. Tourism, on the other hand, is the best example of a service area with high added value where Peru has important advantages and could become a world leader during the first two decades of the 21st century. Energy production is fundamental to support the development of all productive sectors, and a manufacturing industry with a high added value and advanced technology should be the motor behind economic growth in the medium and long term. Finally, the construction sector will play an important role in providing
physical and housing infrastructure, generating employment at relatively low levels of investment per job and with important links to the construction supply industry.

**Farming: the challenge of productivity**

Farmers have adapted to the peculiarities of Peru’s climate and terrain over long centuries of learning. However, each region confronts serious difficulties in reaching agricultural development. The arid coastline is interrupted by narrow valleys that are fertile oases. The highlands have a varied climate and a difficult topography and the jungle is characterized by torrential rains, fragile ecosystems and acidic soils and is isolated from the main channels of trade. An estimated 6% of the country’s total area is arable. An additional 14% is appropriate for grazing and another 38% for forestry. Of the remaining land, 42% is desert, mountainous or protected land. Only 49% of the total arable area is used, which is to say only 2.9% of the national territory is cultivated (Chapter 5). The availability of farmland per inhabitant is therefore very low (only 0.13 hectares) – far lower than in the rest of South America (0.44 hectares). In addition, only 35% of the cultivated area is irrigated.

Despite these limitations, agriculture plays a very important role in Peru’s economy. Agricultural activities, excluding the illegal coca crop, generated around 13% of total GDP in 1997 and employed some 30% of the economically active population (EAP). However, the participation of agriculture in employment has declined – in 1970 it employed 48% of the labor force – reflecting migration from rural to urban areas. Table 3.1 demonstrates the main indicators of the farming sector between 1970 and 1995.

Arable land and land appropriate for stockbreeding must be used in the most efficient manner possible. Many countries with less available arable and grazing land per inhabitant have higher agricultural production, which suggests an urgent need to implement a strategy to increase productivity per hectare and per worker. Moreover, farming policy should focus on other structural problems related to the sector, such as limited investment, mass rural poverty and migration to the cities.

While the agrarian reform process that began in the 1970s was successful in distributing land, it failed to promote investment and efficiency. In the following years, dependency on state policies to maintain profitability in the sector increased. When protection policies began to be removed in 1974, gradually at first and then increasingly in the early 1980s, the economic crisis and the impact of natural disasters combined to produce a serious de-capitalization in Peruvian agriculture. Between 1985 and 1986 an effort was made to reactivate it by increasing internal demand, providing credit subsidies and guaranteed floor prices. The harsh adjustment measures at the end of the decade left this sector in a serious situation, which was compounded by a climate of violence and instability, compounded by the destruction of physical infrastructure and the abandonment of the countryside.

The 1990s marked a radical change in agricultural policy. Protection for agricultural production was eliminated along with price controls, state credit and the state-owned food and supplies traders. The impact of these measures varied according to the characteristics of the producers, in particular among farmers in rural areas (Table 3.5). In order to guarantee the free operation of agricultural markets, the land market was liberalized and measures were adopted to promote private investment. However, serious market problems persisted that created obstacles for efficiency, equity and sustainability objectives, making a sectoral policy and integral technology for the sector imperative. Moreover, the farming sector faced unfair competition from numerous imported products that enjoy subsidies and protection schemes that distort prices to the detriment of internal production.

**Regional differences**

The coast is home to 53% of the country’s population and contains only 21% of total arable land. Despite this, it generates 60% of agricultural GDP, thanks to its easier access to international markets, its moderate climate and fertile soils. The bulk of public investment in the sector has been geared toward funding large-scale irrigation projects in the region. The most important agricultural products, in terms of their production value, are cotton, sugar cane, rice and – in recent years – asparagus.

In the highlands, where 36% of the population lives, the majority of the land is used for grazing and only 18% of the total area is arable. Farming activity in this region tends to have very low yields due to the difficult terrain and harsh climatic conditions. Farming is more diversified than on the coast and, while it is increasingly oriented toward trade, subsistence agriculture is still practised. Together with contributing 25% to the agricultural GDP, the highlands generate 75% of non-poultry livestock output and virtually all llama, alpaca and vicuña production in the country. The most important products in the highlands include potatoes, white corn and wheat.
The jungle, with only 11% of the population, has the greatest long-term development potential, principally through its forestry resources (Chapter 5). However, its rich diversity of flora and fauna, the fragility of its ecosystems and its limited infrastructure require that any expansion be carried out under environmental sustainability criteria. Agriculture is mainly carried out in the areas where the highlands meet the jungle. Of the million arable hectares in the jungle, only 10% is irrigated and 300,000 hectares are used for grazing. The region generates 15% of agriculture production, the main products being coffee, cocoa, rice, yellow corn and manioc. Toward the end of the 1990s, coca leaf production, the majority for illegal export, increased to cover close to 200,000 hectares in the area.

Land ownership is highly fragmented, with 55.4% of farmers cultivating less than 3 hectares. In the highlands, small landholding predominates to an even greater extent, as 63% of peasant farmers possess less than 3 hectares and each averages 4.1 plots of land. The III National Agrarian Census showed that in 1994 only 17% of farmland was formally titled, a percentage that increased to a still very low 22% in 1998.

**Increasing productivity**

Low average agricultural productivity in the country is a persistent problem that must be urgently addressed. Increasing productivity is the most important challenge in this sector. Despite difficulties regarding consistent and comparable data over time, Table 3.1 and Figure 3.6 indicate that the value of farming production per hectare and GDP per farm worker did not increase during the final decades of the 20th century, even during the farming policy reforms of the 1990s. Moreover, there are vast differences between regions and zones, as well as between crops and even between adjacent land plots. In general terms, the coast has received the lion’s share of investment in infrastructure and technology, and therefore demonstrates greater productivity and profitability. Other regions have been harder hit by the abandonment of the countryside and the destructive impact of terrorist violence.

During the 1990s several agrarian policy reforms were instituted to modify the incentives system so that prices might reflect opportunity costs; to reduce state subsidies; to control the fiscal deficit and inflation; to improve regulations to promote private investment; and to control violence and drug trafficking. The Ministry of Agriculture was the main agent behind these changes but it failed to recruit enough qualified and competent public officials to implement them efficiently. Private institutions (NGOs, local producers) have played an important role in promoting agriculture, but the lack of an organization to articulate the demands and requirements of farmers and better organize support for this sector speaks volumes. As a result, despite the reforms implemented, lack of clear policies, of credit and other types of support for the farming sector have discouraged private investment in all regions.

The State should promote private agricultural investment, complementing it with technical assis-
The impact of macroeconomic stabilization on rural households

The macroeconomic stabilization policies applied during the decade of the 90s – particularly the price adjustments made in 1990 – had varying impacts on rural households depending on the geographical area and the type of economic activity involved. The main variable explaining the difference in impact was the degree of diversification of the productive activity, given that income of rural households comes not only from agriculture.

<table>
<thead>
<tr>
<th>Product/Zone</th>
<th>Type of producer</th>
<th>Degree of diversification</th>
<th>Impact of adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn / Rice</td>
<td>Small commercial producer</td>
<td>Limited (diversification attempted without success)</td>
<td>Extremely negative</td>
</tr>
<tr>
<td>Serrán - Malacasi</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alto Piura</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goats</td>
<td>Small extractive producer</td>
<td>Limited</td>
<td>Over-exploitation of resources cushions adjustment</td>
</tr>
<tr>
<td>Motupe / Olimos</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Lorenzo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fruit</td>
<td>Small and medium commercial producer</td>
<td>Nil</td>
<td>Extremely negative</td>
</tr>
<tr>
<td>Motupe / Olimos</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Lorenzo</td>
<td>(left without credit)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>Medium and small commercial producer</td>
<td>Limited</td>
<td>Sold animals and machinery. Income still plummeted</td>
</tr>
<tr>
<td>Ferreñafe</td>
<td>(left without credit)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>Small and medium commercial producer</td>
<td>Significant</td>
<td>Extraction and trading animals allowed income levels to survive</td>
</tr>
<tr>
<td>Napo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Green asparagus</td>
<td>Medium and large commercial producer</td>
<td>Nil</td>
<td>Access to financing and guaranteed demand maintained income</td>
</tr>
<tr>
<td>Chincha</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potato</td>
<td>Small and medium commercial producer</td>
<td>Limited</td>
<td>Small: hired out labor. Medium: sold cattle to cushion income decline</td>
</tr>
<tr>
<td>Huancayo</td>
<td>(left without credit)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potato</td>
<td>Small commercial producer</td>
<td>Significant</td>
<td>Hired out labor, sold cattle and possessions to maintain income</td>
</tr>
<tr>
<td>Pomacanchi</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alpacas</td>
<td>Small organized producer</td>
<td>Limited</td>
<td>Export of fiber and organization facilitated market links</td>
</tr>
<tr>
<td>Puno</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small non-organized</td>
<td>Limited</td>
<td></td>
<td>Temporary migration to cushion income fall</td>
</tr>
<tr>
<td>producer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed potatoes</td>
<td>Small and medium commercial producer</td>
<td>Limited</td>
<td>Income maintained due to higher demand for needs</td>
</tr>
<tr>
<td>Cusco, Huancayo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice / Corn</td>
<td>Small and medium commercial producer</td>
<td>Limited</td>
<td>Higher transport costs and pull out of State a heavy blow to income</td>
</tr>
<tr>
<td>San Martín</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Javier Escobar, "Impacto de las políticas de ajuste sobre la pequeña agricultura", Debate Agrario, No. 20, 1994, pp. 51-78
tance and technology transfer programs for agriculture and agro-industry, as well as improvements in the commercialization infrastructure. At the same time, there is a need to fully explore the linkages between investment projects in highways, ports, energy, telecommunications infrastructure (Chapter 6) and farming investment projects.

Agricultural development promotion strategies should recognize the economic rights of producers, traders and consumers in order to ensure a more efficient distribution of resources in the context of a market economy. However, the State should intervene in areas where market forces do not create adequate incentives for private investment, or where markets do not operate properly due, among other elements, to difficulties in fully internalizing the costs and benefits on the part of private agents. In these cases government agents should facilitate access to those goods and services that are indispensable for farming development, in particular credit.

**Funding agricultural activities**

Policies for promoting private investment should be based on adequate access to credit; for this, it is necessary to encourage private banks to increase credit lines for agriculture. At the same time it is also necessary to take advantage of the experience accumulated by a variety of non-governmental organizations in funding small-scale farmers. Ensuring greater access to credit should be a priority. In order to achieve this objective mechanisms must be created that reduce risks associated with climate, seasons and crop differentiation. Around 1997 small rural savings banks provided only around 6% of total credit; they have fewer requirements to meet than private banks but higher operating costs and market interest rates. The State, meanwhile, participated directly in this market in a limited fashion, mainly through revolving funds set up by the Social Development and Compensation Fund (Foncodes) and the Ministry of Agriculture.

This approach must be strengthened with the participation of the Development Finance Corporation (Cofide in Spanish) as a second-tier bank developed in parallel to the current rural bank scheme. An integrated system at a national level will make it possible to achieve economies of scale. The experience acquired by rural banks in each region will make it possible to reduce problems related to information, while Cofide can facilitate access to credit in the commercial banking system by guaranteeing loans to farmers through a joint venture scheme. A national integrated credit system for agriculture should take into consideration the particular characteristics of farming risks at the local level, as well as its common characteristics at the national level.

Land titling will also encourage the participation of the commercial banks in funneling credit to agriculture, above all in coastal valleys where there is agro-industrial activity. The legal problems of these valleys are less complex than those of other regions in the country and the geography is more uniform. In other regions, progress must be made regarding property rights, but alternative communal ownership schemes and traditional systems of ownership must be taken into account. Despite the extensive land-titling program carried out in the 1990s, commercial banking credit to farmers who have holdings of less than 20 hectares is very limited, as a lack of information makes the credit risk very high.

Formalizing property titles and a free interest rate will not, however, be enough to solve the information problem that is currently creating obstacles for credit. Marked price fluctuations make it necessary to have access to futures markets and other insurance mechanisms as prices themselves are not enough to encourage farmers to opt for crops that are more socially beneficial in the long term. Farmers do not have a system or an information base that allows them to make decisions in an efficient manner. And there is also no adequate or broadly disseminated information about soil quality, crop requirements, the proper use of supplies, comparative yield, pest management and the profitability of different crops.

There is also a need to improve the process of awarding uncultivated land, by taking regional
differences into account. For this, the definition of such land must be clarified. Finally, it is essential to review the minimum and maximum limits on land ownership, the minimum limits for land mortgages and the role of the state in determining types of land use.

Marketing infrastructure must improve in order to ensure optimum information for producers, intermediaries and consumers, thereby reducing transaction costs for the sector. The creation of regional and local bodies will allow private traders to have better access to wholesale markets, as well as storage and classification infrastructure in key producing centers. At the same time, it is essential to expand and shore up the efficiency of the Commodities Exchange, which will increase efficiency in marketing and future production plans.

Farming and technical assistance extension services should place particular emphasis on increasing productivity in the sector, above all in the highlands and jungle. These agricultural extension services should also pay attention to combining traditional knowledge and practice with advances in the areas of scientific and technological research (Chapter 5).

Food security and farming production

In the medium-term, agricultural policy should reduce the vulnerability of Peruvians' food consumption patterns (Chapter 4); this means it is necessary to pay attention to indicators regarding nutrition, the availability of food and the food trade balance. Food imports have increased significantly as a result of market liberalization and rural neglect. The agricultural trade gap has widened considerably which, combined with the limited diversification of our primary export products, makes us highly vulnerable to international price variations. However, reducing this vulnerability does not imply that we have to be self-sufficient in food production or that the aim is to achieve a positive trade balance at any cost.

Peru has a multiplicity of ecosystems, a wide variety of food and the potential to increase its agricultural frontier and its productivity (Chapter 5). All of these elements should come together to achieve a balance between food consumption, farming potential, exports and imports of agricultural products and the capacity to store and conserve food to cope with natural disasters and other emergencies. The consumption of local products should be encouraged as should their trade between different regions of the country in order to ensure a continuous and varied supply of food.

The most important products in terms of production value include rice, cotton and sugar cane, while coffee, cotton and sugar have been the main exports. In broad terms, 25% of the total value of farming production is made up of poultry and other livestock, 30% by fruits, vegetables and other native products, while the remainder is made up of corn and potatoes. White and yellow corn, potatoes and rice account for 63% of the total area under cultivation.

This limited diversification exposes us to risks associated with climate changes (floods, drought) and price fluctuations. A better understanding of our farming potential, together with increased productivity, scientific and technological re search are the key elements for diversifying agricultural production. Research will help us identify the advantages that the different regions of our territory offer for production of a variety of foods over the course of the year, as well as allowing us to take better advantage of traditional crop and ecosystem management methods. There is a need to provide producers with information and to design plans to organize the territory based on criteria related to the characteristics of ecosystems, for example through integrated watershed management.

Agricultural promotion measures must be aimed, first of all, at increasing productivity. Yield and variety per hectare must be increased and technology disseminated that is designed to conserve soils. Once this is achieved it will be possible to consider other more costly programs to increase farming production, such as increasing land under cultivation and the agricultural frontier.

Parallel to this the consumption of meat and dairy products should be encouraged, in order to seek an adequate balance between imports and national production. Encouraging sheep, llama and alpaca farming is particularly important as it will also provide supplies for the textile sector. At the same time, genetic improvements, increasing the animal population and increased use of technology in livestock production should be promoted, bearing in mind export potential. In any event, the impact of an increase in meat and dairy consumption must be evaluated, and we should think about promoting sheep and alpaca and llama raising on pasture lands in the high Andes as opposed to sowing cereals and other farming products for human consumption.

Irrigation projects and pricing policies

Irrigation infrastructure projects are often highly beneficial in social terms and can also generate profit for private investors. As with other physi-
cal infrastructure sectors (Chapter 6), public investment must be complemented by resources from the private sector in cases where "social profitability" far outstrips private profitability. Considering the fact that Peru's difficult terrain causes a very unequal water distribution, hydro engineering and irrigation projects should be geared toward overcoming this difficulty so that agricultural development is encouraged. Moreover, taking into consideration the fact that there are many irrigation projects currently underway or being programmed, there is a need to carefully evaluate which projects should be completed and how, as well as the appropriateness of implementing new projects. At the same time, there is a need to expand the portfolio of small and medium-sized irrigation projects that require fewer resources and can be carried out relatively quickly.

In order to encourage the participation of the private sector in irrigation infrastructure, water rates must permit a reasonable return on investment. Moreover, water rates should promote the efficient use of this increasingly scarce resource, avoiding waste and encouraging conservation. However, efficient water management does not just imply adequate rates, but also improvements in administration in order to address complex management problems, many of them derived from the characteristics of this important resource (infrastructure, seasonal variations in its availability, multiplicity of use, and so on). As a result, we must evaluate the advisability and the most appropriate manner of introducing market mechanisms into water management, by complementing these mechanisms with the participation of the public sector when justified in terms of social profitability.

From this perspective, while the market should be the principal mechanism for assigning resources in the farming sector, the State must intervene in cases where there are serious flaws in the operation of markets. The intervention of government agencies should be as transparent as possible; they should preferably focus on providing information and technical assistance, but may also act via direct, clearly identified subsidies. These must be clearly stipulated in the budget and should target the most vulnerable, lowest income sectors. The main objective should be to establish a series of floor prices for local small producers, who frequently face huge losses when there is a glut and when middlemen take advantage of their vulnerability.

The current system of variable tariff surcharges is another way that the State can intervene in farming sector prices. The system provides a degree of protection for national farmers who face competition from imported products, which frequently enjoy subsidies in their country of origin. An alternative to the current system consists in establishing a flat tariff of 10 - 15% (expressed in US$ per metric ton) on the value of imported products. This should be accompanied by measures to promote competition in local markets, in such a way that the benefits go to the farmers and not the intermediaries. The tariff system should be limited to products associated with rice, corn, wheat, sugar and milk, (including all close substitutes) so as to avoid trade distortions that could discourage local production. Once again, funding for this sector must be clearly indicated in the public budget in order to avoid excessively distorting the relative prices of agricultural products and their substitutes.

**Mining: towards world leadership**

Mining has always been very important in the Peruvian economy. In 1998, mining production surpassed US$3 billion, representing 11% of GDP. It is also the country's main source of foreign exchange, representing 48% of exports. Table 3.2 demonstrates the economic and social importance of mining activity in the country.

Mining also encourages the development of other activities, such as farming, stock-breeding, transport and commerce, and contributes to regional development through the construction of highways, hospitals, railway lines, population centers and educational centers. However, its role as a generator of jobs is very limited in comparison to its impact on national production. Mining directly or indirectly employs 255,000 people, a figure that is lower than the number of people entering the Peruvian workforce on an annual basis.

Peru has polymetallic mines, primarily in the center of the country (Chapter 5), which allows for highly diversified mining production and helps reduce income fluctuations stemming from international price variations. On the other hand, monometallic mining has made significant strides in the past decade, primarily due to the coming-on-stream of major gold and copper projects, such as Yanacocha and Antamina.

Mining production has five phases: exploration, exploitation, concentration, smelting and refining. While the majority of mining firms concentrate on the first three, the most important companies also have their own smelting and refining facilities, such as Southern Peru Copper Corporation with the Ilo refinery and Doe Run (previously Centromin) with the La Oroya facility. In many cases in recent years, leaching methods to process minerals (refining through the use
of solvents) have replaced more traditional concentration and smelting methods, making it possible to cut costs. For example, these processing methods have allowed Yanacocha to register one of the lowest costs per ounce of gold in the world.

The mining sector in Peru can be divided into three. Large mining, made up of seven firms that represent approximately 51% of total production; medium-sized mining with around 45 firms that account for 43% of production; and small mining with a vast number of firms representing around 4% of national production. As indicated in Chapter 5, significant mining reserves have made it possible to sustain extraction for many decades. Copper, silver and gold reserves have increased significantly in recent years due to the development of new projects, as well as the growth of exploration and exploitation activities on the part of long-established firms.

In the 1990s, Peru’s mining development strategy consisted primarily in freeing up activity in this sector. New legislation adopted at the beginning of the decade eliminated the pre-eminence of state mining activity over private operations, did away with any discrimination, and facilitated the entrance of major foreign mining firms. Exchange rate policy, trade and tax measures in the framework of the economic stabilization program of August 1990 promoted development in the sector. For example, tax reforms reduced the protection enjoyed by local suppliers and machinery producers and eliminated the multiple exchange rate that had a marked anti-exporter bias – given that the import of supplies and machinery was paid at a free exchange rate – while the value of exports was fixed at a lower rate. The new legal framework made it possible to increase investment in the sector from US$21 million in 1992 to US$1.526 billion in 1998. This has meant an injection of resources into the countryside, even in very poor and isolated areas, which has translated into infrastructure, greater integration of the national economy and an important boost for productive activity.

Mining activity will continue to be Peru’s main source of income in coming years but should also provide the initial impulse for, and become one of the motors of, productive transformation, by channeling part of its surplus and investments to that end. We must take advantage of mining’s capacity to generate linkages with the manufacturing, construction and service sector in order to progressively advance toward productive activities with greater added value. In turn, these should be linked to macroeconomic policies that are aimed at reducing the exchange rate lag, stimulating renewed interest in investment in Peru, and bringing interest rates down to international levels.

**Promotion of mining activities**

Peru must implement a series of policies and legal, administrative, economic and technological measures that will make it a world leader in mining. Together with promoting investment, a series of complementary activities in scientific and technological investigation and in tax and financial fields must be undertaken.

Current legislation declares investment promotion in the mining sector to be of national interest and grants it the following benefits:

- Tax, exchange rate and administrative stability is guaranteed to firms that invest in mining, through contracts that fix conditions established under norms in force when the feasibility study is approved by the Ministry of Energy and Mines.
- Investment in public infrastructure, as well as expenditure on the social welfare of employees will be deductible from taxable income.
- Freedom to remit profits and free availability of foreign currency.
- Freedom to trade at home and abroad.
- Joint venture contracts are subject to the same laws and obligations that govern non-associative firms.

As a result, progress has been made toward a stable promotional regime and a legal stability that encourages and protects major investments in the sector. However, these benefits must be extended to investments that promote linkages with national industry. It is essential to establish coordination mechanisms between mining firms, industrial companies, and the State, in order to seek a convergence of interests that will make it possible to achieve world leadership in mining and at the same time promote related industrial activities. Moreover, there is a special need to encourage scientific and technological research on mineral resources in Peru. The dissemination of this information will facilitate prospecting and exploration, in particular in the case of medium and small mining firms and will help to encourage development possibilities in this sector for foreign investors.

Tax incentives, particularly those associated with reinvestment of profits, must be maintained and increased in order to ensure continuous and stable investment in mining exploration and exploitation. The possibility of extending these benefits to investment in complementary activities must also be stud-
ied. On the other hand, there is a need to guarantee a just and effective distribution of resources from the mining "canon", by establishing transparent mechanisms for its distribution among local governments.

Another initiative that deserves careful study and consideration is the creation of a stabilization fund, which would be financed mainly through contributions from mining companies and the financial system. It would aim to reduce the impact of international price fluctuations on the main mining export commodities. This mechanism has been used in countries like Chile for copper and Colombia for coffee and should be complemented with the use of financial instruments, such as options and futures, that will also strengthen the financial sector. A stabilization fund will make it possible to cushion the impact of volatile prices, as income will not vary to the same degree as international metals prices. This will also make it easier to project tax revenue.

Support for medium and small mining companies

The international crisis and the fall of metals prices at the end of the 1990s essentially meant that medium and small-scale exploration was no longer viable; it also dealt a heavy blow to medium-sized mining. The low capitalization of these firms did not allow them to rapidly and efficiently adapt to abrupt price variations, something that large, better capitalized transnational firms, with more information and advanced management systems, were able more easily to withstand.

In consequence, measures must be taken to reactivate medium and small sized mining: these financial aspects, services, infrastructure, technology and trade. The aim is to ensure a more solid capitalization of these firms, increase their productivity and efficiency, broaden transport and energy infrastructure, improve their technological standards and consolidate their business administration capacity, thus making it possible for them to compete on equal terms with other firms in the international market. On the other hand, for the most part, small and medium-sized mining companies produce mineral concentrates which they then sell to large mining firms for refining. A strongly asymmetrical relationship in access to information makes it necessary to design mechanisms to strengthen the bargaining capacity of small and medium-sized miners, so they can negotiate under equal conditions. The serious nature of the financial situation of this mining sub-sector has led the Association of Small Mining Producers to propose a financial reactivation scheme that includes the following points:

- The rapid determination of debts on the part of mining companies and state creditors. The program will not be applicable to those firms that, in the opinion of the responsible commission, have misused credit.
- In order to give small miners access to credit in the financial system, their first guarantee should be the geological study and the technical-economic feasibility study.
- A search for funding by the State and entities representing the sector for the application of this program. Funding could be obtained through international development agencies, creditor banks, investment banks and welfare funds.
- The creation of mining savings banks, made up of mining companies, investment banks, mining suppliers and mineral traders.
- Cofide's participation as a second-tier bank in order to channel funds toward mining producers, principally through mining savings banks.
- Training in the use of environmentally-friendly technology. At the same time, assurances will be given for the transfer of technology by larger companies to this sector.

Finally, it is worth pointing out that, as mentioned in Chapter 5, the mining sector should comply strictly with Peruvian norms on environmental protection and pollution reduction. This implies internalizing environmental costs, something that must be fully incorporated into production cost calculations.

| TABLE 3.2 |
|------------------|------------------|
| Importance of mining in Peru (1998) | |
| 1. Value of production | US$3,300 millions |
| 2. Value added of mining production | 60% |
| 3. Direct contribution to GDP | 11% |
| 4. Share in total exports | 48% |
| 5. Share in tax collection | 13% |
| 6. Workers and dependents | |
| Direct workers | 51,000 |
| Indirect workers | 204,000 |
| Dependents | 995,000 |
| 7. Annual purchases by the sector | |
| Local | US$1,370 millions |
| Imported | 800 millions |
| | 570 millions |

Source: Sociedad Nacional de Minería y Petróleo, Ministerio de Energía y Minas, Superintendencia Nacional de Administración Tributaria.
Fishing: The challenge of sustainable development

Fishing has been carried out in Peru's rich maritime waters since pre-Hispanic times (Chapter 5), and is one of the country's main sources of income. The FOB value of fish exports increased from US$450 million in 1990 to US$1.4 billion in 1997, which represents between 14% and 21% of total export income. However, the El Niño phenomenon and the fall in fishmeal prices meant the value of exports to plunged to US$650 million in 1998.

Catches in the mid-1990s were very similar to those of the early 1970s (Chapter 5, Figure 5.3): that allowed the fishing sector to recover. The contribution of fishing to Peruvian GDP went from 0.5% in 1981 to approximately 0.8% in 1997, a percentage that was still far from the 2% it reached in 1970, a year marked by a historic catch. The 1998 El Niño phenomenon slowed this expansion and as a result the figures at the end of the 1990s do not represent the true potential of the sector.

National fishing activity in recent decades can be divided into three periods. The first began in the early 1950s and ended in 1970. In this period the fishmeal and fishoil industry was created and expanded, with anchovy as the main resource. Constant capitalization meant major investment that produced state-of-the-art technological development, both in extraction and in processing. However, overfishing threatened the anchovy stock and, when waters heated up due to the El Niño phenomenon, led to the collapse of the Peruvian fishing industry in 1973 (Chapter 5, Figure 5.3).

The second period, beginning in 1970 and ended in 1983, was characterized by the de capitalization of the sector due to overfishing and the expropriation of the fishmeal industry in 1973.

The third period began in 1983, with the canning industry crisis, caused once again by El Niño, and a slump in foreign demand. The fishing industry, however, began its economic recovery in 1984, due to the reopening of the fishmeal market, a progressive improvement in international prices and the recovery of fish stocks (such as anchovy and sardine).

Movements in international prices and demand for fishmeal significantly affected fishing exports during the 1990s. Despite the decline in the physical production of fishmeal, export income increased between 1991 and 1992 due to a 26% rise in international prices. Between 1993 and 1994 the increased availability of fish stocks, the higher number of processing plants and increasing world demand raised both the volume of production and the value of fishing exports. Between 1995 and 1997, the catch declined somewhat as a consequence of periodic bans, but the value of exports continued to grow, thanks to rising international prices. These, however, were unable to offset the decline in the 1998 catch and a further slide in prices due to the increasing availability of the substitute soy meal.

Throughout these periods, productive activity in the fishing sector has concentrated on the exploitation of fish stocks, both extraction and processing. The catch, in particular sardine and anchovy for fishmeal and fishoil, and canned and frozen fish, has mainly been destined to markets abroad. The fishing sector still has the capacity to expand despite fluctuations in production due to pressure on the stock. The challenge lies in achieving responsible growth, taking advantage of the fact that there are several under-exploited species in Peruvian waters and a vast stock (Chapter 5, Figure 5.3).

Sustainable use of fish stocks

Fisheries management policies established in the early 1990s are aimed at efficient, sustainable exploitation. This objective is difficult to achieve in fishing, given the lack of property rights over the fish stocks that could lead to over-exploitation if adequate incentives and an effective regulation system are not established.

Long-term efficiency and sustainability can be achieved through private or public mechanisms. Private mechanisms operate through negotiation and it is up to the parties involved to jointly establish limits on extraction. However, to date, this is not viable in the Peruvian context given the large number of companies involved that have carried out heavy investment; this implies high operating costs and little incentive to participate in this type of negotiation.

Public mechanisms, for their part, require a regulator that supervises rational resource management through instruments of control or economic incentives. The first entail direct control over extraction (bans, fishing areas) or on the type of fishing (number and characteristics of the fishing vessels), while the second are applied through taxes or Individual Transferable Quotas (ITQs). While instruments of control make it possible, in principle, to guarantee the stock, they can also lead to low profitability in the sector as they do not make it possible to reduce excessive fishing capacity; they also involve high supervision costs.
On the other hand, economic incentives permit a more efficient rationalization of overexploited fisheries and allow regulators to collect income and promote cost reduction. ITQs have the additional advantage of introducing fishing property rights into the system. However, they also imply high supervision costs, depend on fish stocks and require the participation of the entire sector for their successful implementation.

The Fisheries Ministry has a series of mechanisms that allow it to control extraction, such as the Maximum Permissible Quota, bans, fishing seasons, minimum catch size and reserved or off-limit zones. On the other hand, the State can also apply instruments of control, such as limiting the characteristics and the capacity of the fleet, the total processing capacity and fishing procedures and systems. In the case of fully exploited but not overexploited stocks, the State establishes limits regarding the fleet and processing capacity, and restricts access for new fishing firms.

Instruments that are both economically efficient and politically viable must be designed and implemented as soon as possible in order to reduce pressure on the stock and excessive processing capacity, in particular regarding heavily exploited species such as anchovy and sardine. Taking into consideration the various options that exist for fish resource management — such as taxes and ITQs — their advantages and disadvantages, administrative costs and efficiency must be closely examined prior to implementation.

For example, the initial distribution of ITQs is a very difficult task and demands a fair and equitable balance. Fishing firms with greater resources can purchase quotas from firms facing financial difficulties; this could concentrate fishing opportunities in a few hands, leading to a quasi-monopolistic production structure and reduced competition. In the event that an equitable system for distributing ITQs is not designed together with appropriate regulations for ITQ transactions, another option would be to implement control measures similar to those that are currently in place, but strengthening the government agencies responsible for enforcing them.

**Investment in the fishing sector**

During the past two decades, fish processing has been the target of significant private investment. Its magnitude has been similar to investment carried out during the 1970s when the fleet capacity was extended. The bulk of private investment was in fishmeal plants, whose number tripled between 1984 and 1997 (the period between the two strong El Niño phenomenons) and whose processing capacity increased more than 15 times. In contrast, during the same period the number of canneries decreased from 94 to 64 and installed processing capacity fell 15%.

Investment in the sector generated a high level of indebtedness among Peruvian firms that reached some US$1.5 billion in 1999 — an altogether excessive amount. This has jeopardized the economic viability of the majority of firms in the sector, above all taking into consideration the fall in international fishmeal prices and the increased uncertainty generated by climatic changes in recent years. Moreover this means that fishing firms, seeking greater income to cover their financial obligations, try to increase their extraction levels and put heavy pressure on fish stocks. The solution to this problem lies in capitalization and diversification. There is also a need for financial restructuring in line with with sustainable levels of exploitation. It is important to emphasize that this high level of indebtedness also constitutes a risk for the banking system.

Considering that the bulk of investment in the fishing sector has targeted the exploitation and processing of anchovy and sardine, there is a clear need to diversify investment and activities to take advantage of new species, produce special meal, export frozen and canned fish, encourage aquaculture and in general, move toward production activities with greater added value.

Parallel to this there is a need to invest heavily in scientific and technological research (Chapter 5) to enable the sector to become a world leader in the generation and export of knowledge about conservation and sustained use of marine resources, as well as reduction of pollution and prevention of climate-related damage.

**Promoting human consumption of fishing products**

High seas fishing for direct human consumption is an option that has enormous potential for the development of the fishing industry. However, it raises problems related to current food consumption habits that do not promote fish consumption; there is also no proper network of cold-storage facilities that would allow for efficient distribution. Campaigns and incentives must be launched to encourage people to eat seafood, which will boost levels of food security and reduce the imported components of the basic food basket. This requires putting into practice measures to promote aquaculture, and artisan and small-scale fishing.
Tourism: Peru as one of the world's main destinations

World tourism has experienced a major increase in recent decades to the point where its participation in world GDP at the end of the 1990s was more than 8%, a figure higher than the percentages represented by oil (slightly more than 6%) and the automobile industry (5.5%). The number of international arrivals around the world, which was more than 610 million in 1997, grew 4% a year during the 1990s and, according to estimates from the World Tourism Office, will continue growing by more than 5% until 2010.

Peru's tourism potential is enormous. However, this potential has not yet been translated into a significant position in the world tourism market. Growth in this sector faced a series of difficulties during recent decades and during the 1980s was practically nil. The climate of insecurity in the country, mainly due to terrorist violence, discouraged foreign tourists while economic instability had a negative impact on national tourism, which also suffered a marked drop.

Economic growth and initial achievements in the battle against terrorism in the 1990s improved Peru's image abroad, allowed the reactivation of internal tourism and had a direct impact on the number of foreign tourists visiting our country (Figure 3.7). This motivated greater private investment to improve infrastructure and tourism services, in many cases associated with hotel privatization. Moreover, in the mid-1990s the government took steps to promote tourism, in particular domestic tourism. As a result, income from tourism increased 20% annually as of 1993, reaching slightly more than US$910 million in 1998. Despite this significant growth, in 1997 Peru was still only 79th-ranked world tourist destination, accounting for 0.1% of total global receipts.

Peru could become a Latin American and world tourism power over the next 20 years. Multiple options for tourists (archaeological sites, tropical forests, biodiversity and adventure tourism), the richness of our culture, gastronomy and the hospitable nature of Peruvians give the country a series of advantages over other destinations. However, in order to tap this potential, it must all be complemented with appropriate transport and housing infrastructure, with attractive tourist programs and activities and with training programs for people working in the sector. Only in this way, will it be possible to offer high quality services that encourage a growing number of tourists to travel repeatedly to Peru.

International and domestic tourism

The tourism market is made up of foreign visitors (73%) and national tourists (27%). Each segment has different characteristics, spending capacity and seasonal distribution throughout the year.

Toward the end of the 1990s, more than 70% of tourists traveling to Peru did so in order to visit traditional historical sites (mainly Cusco and Machu Picchu), around 20% did so out of interest in our culture, while 6% visited because of an interest in nature. The majority of foreign tourists are aged 25-44 and 85% have higher education. On average, they remain in the country for 15 days and spend US$1,270 (excluding international travel). Nearly two-thirds of international tourists coming to Peru are from Latin America and the United States; the latter accounts 22% of arrivals, followed by Chile with 19%.

This suggests the need to attract a greater number of tourists from other regions, whose spending capacity could significantly increase income from tourism. At the same time, international arrivals fluctuate markedly over the course of the year, among other reasons due to a major influx of tourists from the northern hemisphere during their summer months (June, July, August). This tendency, which has increased in recent years, could generate installed capacity problems if tourism is not encouraged in other seasons. With aggressive international promotion (in particular in Europe and Asia) and a clear diversification strategy it would be possible to ensure a growing and continuous flow of foreign tourists throughout the year. Together with eco-tourism, mystical and adventure tourism can also be promoted; these are in great demand at an international level and do not require major infrastructure investment. Beach tourism is another option.

The vast majority of national tourists travel from Lima to other parts of the country, are young
(59% are under the age of 35), have higher education (75%) and come from middle-income homes. The majority of domestic travel is to visit friends or relatives; this does not require spending on accommodation and is therefore cheaper. Average expenditure is approximately US$130 per trip, of which 20% corresponds to transport. The average duration of a trip to the interior of the country is eight days, and expenditure is approximately 20% of what a foreign tourist would spend. Seasonal variations are also very marked and the majority of trips tend to take place during school and university vacations (January – March) in Holy Week, the Independence Day long weekend (over July 28) and New Year. Domestic tourism should be encouraged through campaigns that go beyond simply decreasing holidays that allow people to enjoy long weekends. For example, it would be possible to organize campaigns to promote low-cost tourist programs that include travel, housing and other services for limited periods in pre-defined places, and are aimed at young people, workers, and people with low incomes.

**Diversification of tourist destinations**

Peru has three main tourist areas. The first is Lima, where nearly half all foreign tourists arrive and where most trips toward other parts of the country commence. Lima is by far the main reception center for tourists in Peru. Seven of every 10 people arrive in the country by air and Jorge Chavez International Airport concentrates 98% of national air traffic. Together with increasing the number of points of entry to Peru by incorporating other important cities such as Cusco, Arequipa, Trujillo, Piura and Iquitos, Lima must offer a series of facilities and services, a first-class airport, adequate transport to the city and support services, to make the arrival of foreign tourists to our country a smooth one.

The second tourism area is the south of the country, with Cusco being the main destination and Machu Picchu the main attraction. This circuit also includes Arequipa (the Colca Valley) and Puno (Lake Titicaca), which are zones of enormous natural and cultural wealth.

The third circuit covers the north of the country, with attractions such as the pre-Hispanic city of Chan Chan and the tomb of Sipan. These three areas are visited by foreign tourists but Peruvian nationals also travel to attend regional festivals, above all religious ones, in different parts of the country.

All of these tourist destinations are prone to very marked seasonal variations, making it necessary to design tourist programs and packages that will allow a better use of tourist infrastructure and personnel dedicated to this activity throughout the year. One of the most important tasks for the next few years is to increase the number of destinations and tourist circuits, placing emphasis on the jungle and eco-tourism, other zones of archeological, cultural and natural interest (Ancash, Cajamarca, San Martin) and in zones of special interest for tourists who seek adventure, beaches, sunshine and mystical experiences.

**Tourism infrastructure and institutional framework**

In order to provide quality service to tourists, with interesting activities and the means to carry them out, there is a need for appropriate tourist infrastructure. This infrastructure includes travel agen-

**BOX 3.6**

**Tourism and employment generation**

Tourism has been an important source of jobs, in particular during the 1990s when this activity began to recover. Between 1994 and 1997 tourism created 15% of all new jobs in the labor market in Metropolitan Lima and it is estimated that in 1997 it generated around 5% of total urban employment in Peru and 13% of jobs in the service sector, which means approximately 350,000 jobs. In contrast with other sectors that require enormous investment per job, restaurants and hotels generate 28 jobs for every US$100,000 spent.

Workers in the sector are men for the most part. While women predominate in restaurants, they are generally young: 85% are under the age of 45 and 20% have higher education, in line with the average in the labor market. The majority of workers are independent, in particular in restaurants and transport activities, while 26% are salaried workers and 10% unpaid family workers.

Working conditions in this sector are generally precarious. Nearly two-thirds work more than 40 hours a week and this percentage rises to 87% in hotels. Moreover, three of every four salaried workers do not have contracts and work for relatively short periods. Only 10% have permanent contracts. This is partly due to the seasonal nature of tourism. As a result, working to control fluctuations in the tourist flow throughout the year could help improve labor conditions in this sector.

cies, tour operators, accommodation, tourist service establishments, restaurants, casinos, transport companies, car rental agencies, guides, companies that organize congresses and international fairs, among others.

Local infrastructure has grown lopsidedly in recent decades and quality varies enormously. In order to promote tourist development in Peru, it is necessary to evaluate infrastructure, including available services and weaknesses, and to define priorities to overcome these limitations. For example, transportation continues to be an obstacle for tourist development in Peru.

While the number of flights to Peru increased significantly in the 1990s and the quality and availability of international air service has improved, the same is not true with regard to national flights. Air transport to the interior of the country has experienced problems related to availability of flights and seats, itineraries and security. This is due to the appearance and disappearance of airlines and the age of the fleet: more than half of the planes are over 25 years old. For its part, land transportation – essential for access to the majority of tourist attractions – increased during the 1990s but there are still serious problems related to safety and frequently deficient road infrastructure. This final aspect highlights the need for complementary investment in physical infrastructure (Chapter 6).

The number of lodgings increased from 52,000 rooms in 1990 to 73,000 in 1997, in particular in one-star establishments, although there has also been considerable investment in three and four-star hotels (mainly in Lima and Cusco), which are used, for the most part, by international tourists. This increase is partly due to legislation that freed up the creation of lodging. In recent years, the number of restaurants has also increased, although only a very small percentage corresponds to formal establishments with good quality service, capable of satisfying the expectations of foreign tourists.

Another problem facing tourism development is the overlapping roles of different branches of government, which hamper coordinated and effective measures to promote the sector. The Ministry of Industry, Tourism, Integration and International Trade Relations (Mitincu in Spanish) carries out some promotion work, as does PromPeru. There are also several institutions with jurisdiction over archeological zones, protected areas and places of tourist interest. It is essential to organize and simplify the institutional framework to support tourism, and articulate the efforts of public entities, private firms, local governments and diverse associations. There is also a need to examine the entire range of entities involved in activities such as air and land transport, lodging and food, organization of trips, events, shows and cultural activities, training of specialized personnel, and so on.

Tourism is one of the sectors of the economy with the greatest potential to generate employment but the precarious nature of working conditions means that it is essential to improve the quality of jobs, which will also make it possible to improve the quality of attention to the tourist (Box 3.6). For this it is essential to promote, throughout the country, training programs for staff working in hotels and hostals as well as in other tourist services, in travel agencies, transport companies and in central and local government offices that provide information and advice for tourists. The use of information technology and telecommunications makes it possible to organize tele-education courses at a relatively low cost: this will make it possible to improve the quality of tourist services in zones outside of the main cities and even in the most remote corners of the country.

**Energy generation: linking demand and energy reserves**

Energy generation plays a fundamental role in productive, service and domestic activities. In order to advance in the strategic directions identified in Chapters 3, 4, 5 and 6, a continuous, secure, low-cost energy supply is essential. As a result, we need to formulate a series of policies for the sustainable use of energy resources (Chapter 5), promote adequate energy distribution infrastructure (Chapter 6) and establish a closer relationship between energy supply and demand.
The main problem facing the energy sector is incompatibility between energy consumption and the energy reserves we possess. This can be appreciated by comparing the greater relative weight of oil production and consumption with the limited availability of petroleum reserves. At the end of the 1990s, oil reserves represented approximately 10% of Peru’s total energy reserves, yet oil consumption represented around 68% of total energy consumption. (Chapter 5, Figure 5.7). In contrast, gas reserves represented half of all our energy reserves, but production was only 14% of the total.

Policies in this sector should be aimed toward attaining a better balance between the use of our energy reserves and the energy consumption structure. At the same time, energy generation should promote the sustainable use of resources available in Peru: gas and hydroelectricity for the most part. Regarding demand, there is a need to modify the energy consumption structure: this implies adopting measures to encourage consumption and promote the use of existing energy resources. This will make it possible to reduce the vulnerability associated with a dependency on imports, the impact of climatic changes and natural disasters, which may interrupt the energy supply and cause abrupt price rises.

The energy sector experienced major transformations during the 1990s, when privatizations and deregulation reduced the role of the state in the sector. The state gave up its monopoly over hydrocarbons as of 1992 and in energy generation and distribution as of 1994. At the same time the elimination of regulations and subsidies meant that market mechanisms played a predominant role in setting prices. This opened the way to investment and private management, mobilizing enormous financial resources in this sector. At the same time it also led to a significant increase in energy costs, which negatively affected the competitiveness of the productive sector and the family economy.

Delays in privatizing the state’s remaining companies, the fact that the government takes one step forward but two back on privatization policy, and inconsistency over pricing mechanisms underscore the lack of a long term strategy for the energy sector. As a result, after the initial impulse given to this sector in the mid-1990s, investment has not increased significantly.

Together with guidelines for the use of energy reserves during the next two decades, policies in this sector should aim at increasing efficiency in the generation and use of energy, and reducing vulnerability to sudden changes in prices and the international supply of hydrocarbons (which implies changes in the energy trade balance). Greater emphasis should be placed on energy sources with reduced environmental impact; the use of renewable energy sources should be encouraged and national and foreign private investment should be promoted in this generation, transmission and distribution of energy. In a complementary manner, we need to strengthen the state’s regulation capacity, by giving regulatory bodies greater autonomy and political weight.

**Hydrocarbon reserves, exploration, production and imports**

The continuous decline of production and oil reserves is cause for serious concern. Probable oil reserves have been declining since 1981, when they topped 835 million barrels. By the end of 1997 they had dropped to around 324 million. Meanwhile, oil production fell by nearly 10 million barrels between 1988 and 1997, when it reached 42.1 million barrels, making it necessary to increase imports to meet increasing demand for oil and its by-products. The exhaustion of reserves and limited exploration and development of wells (Figure 3.8) puts us in a high-risk situation, as petroleum resources are being exploited in a non-sustainable fashion. If this tendency is not reverted we will become increasingly dependent on petroleum imports.

Problems in the hydrocarbons trade balance clearly demonstrate the lack of stability in Peru’s current energy consumption pattern. In 1997, imports reached US$833 million, nearly four times what they were 10 years earlier. Despite the fact that the declining trend in hydrocarbon exports was reverted between 1994 (US$187 million) and 1997 (US$381 million), the deficit in the hydrocarbons trade balance reached its highest level in 1997. While it improved slightly due to the El Niño phenomenon and the recession at the end of the 1990s, the hydrocarbons trade gap fell from US$452 million in 1997 to US$352 million in 1998. This deficit will be definitively reverted only when the use of natural gas and its derivatives is consolidated to replace petroleum, or when new oil fields are discovered, something that is unlikely in the next few years given the low investment in oil exploration (Figure 3.8).

Petroleum production and imports are destined for refineries where they are transformed into liquid gas, gasoline, kerosene, diesel oil and fuel oil. Diesel sales, which have the highest consumption levels, effectively doubled in the 1990s and imports increased 2.5 times to around 35% of sales in 1998. Parallel to this, there was a change in the relative
price structure of fuels, bringing it into line with international price structures. This brought a greater increase in the price of diesel, compared to the price of gasoline and other fuels.

In contrast with the continuous decrease of oil reserves, Peru has enormous natural gas reserves, particularly those discovered in the Camisea area over the past 15 years. These reserves are nearly 7 billion cubic feet (Chapter 5, Figure 5.8) and are sufficient to satisfy Peruvian energy demand for more than a century, even if current consumption were to increase drastically.

The exploitation of Camisea gas will make it possible to reduce the energy deficit and the outflow of capital, increase investment in physical and productive infrastructure for the development of southern Peru and modify the country’s energy generation and consumption patterns. As of 2003 the Camisea gas fields should produce enough natural gas to replace the diesel and fuel oil that is used in electricity generation and, to a lesser extent, as industrial fuel. At the same time, Camisea gas opens the possibility of establishing a petrochemical industry and also of encouraging gas consumption for domestic use in the Lima metropolitan zone and in other cities. However, there is still no support infrastructure to encourage wider use of gas; it will therefore be quite some time before it replaces petroleum and its derivatives in a series of industrial and domestic uses. In a long-term perspective, as demand increases in Brazil and other neighboring countries, and if the recently discovered deposits in Bolivia are not fully developed, Peruvian gas could be exported, although this will require substantial investment in infrastructure.

Considering the enormous importance of this resource for Peru’s future, policies to promote the exploitation and use of Camisea gas should focus on a medium to long-term strategy, be based on a broad national consensus, and oriented toward the integral development of our energy resources. It is not appropriate to hastily establish a scheme of incentives, to introduce changes in the pricing systems and to define state intervention based on current criteria and partial perspectives that could create a rigid system that will prove difficult to correct in the next two decades.

**Privatizations and promotion of investment in hydrocarbons**

The privatization of Petroperu and the elimination of its legal monopoly over the refining and sale of hydrocarbons began in 1992. However, this process suffered a series of delays and modifications and was practically paralyzed by the end of the 1990s. As the 21st century begins, the privatization of the Talara and Iquitos refineries are still pending, together with the Conchan refinery and terminal, the Northern Peruvian pipeline and the Petroperu headquarters building. Perupetro was created parallel to the privatization process as a state entity responsible for negotiating and supervising oil exploration and exploitation contracts, and for promoting private investment in the sector.

In order to promote the exploration and development of oil wells, we need to design a program that offers incentives to private investment, but avoids creating a situation in which more and more incentives and subsidies are offered in order to compete with other countries looking for oil investment. Stable rules of the game and a team of highly experienced, knowledgeable negotiators is fundamental in order to avoid similar difficulties to those that plagued the Camisea gas concession and generated a great deal of uncertainty in the sector. The privatization of state firms must be completed, although in some justifiable cases the State should hold onto “golden” shares so it can influence major decisions. Similar to the case of hydrocarbons, the incentives and the privatization program should be complemented with measures to strengthen regulatory institutions.

On the other hand, the need to promote investment should not push environmental aspects related to oil exploration into the background, as exploration frequently has a negative impact on ecosystems. However, it is possible to harmonize foreign investment, environmental protection and energy development (see the example of the Shell/Mobil consortium in Camisea in Box 5.5 in Chapter 5). In order for this to take place, the State must adopt a firm position, by establishing and enforcing environmental protection standards, and ensuring that firms directly incorporate into their cost structure the necessary investment to protect the environment.

**Electricity: changes in the structure of the sector**

Prior to the 1970s, the generation, transmission and distribution of energy was carried out by the private sector. In 1972, during the military gov-
government, private firms operating in this sector were nationalized. By 1990, ElectroPeru, regional electricity firms and isolated systems, all state-owned, produced 70% of the energy in the country, three-quarters of which came from hydroelectric plants. At the same time, an important number of private firms produced their own electricity, mainly through thermal plants and were responsible for the remaining 30% of the electricity supply. In 1990 electricity rates were also heavily subsidized.

In order to put an end to the monopoly and to promote competition in the sector, in 1993 ElectroPeru and ElectroLima were authorized to use their assets to form state companies under the regime of private company law. During the 1990s, generation, transmission and distribution activities were separated, and two major interconnected systems were set up: the Central Northern System (SICN) and the Interconnected Southern System (SISUR). Privatizations began in 1993 and toward the end of the 1990s around 50% of generation activities and 85% of energy distribution were in private hands.

The new legal framework for the development of the sector and electricity concessions established that generation, transmission and distribution activities could be carried out by any company or individual, whether national or foreign. Foreign investment has played a predominant role in privatizations in the electricity sector, while Peruvian investors – both firms and individuals through the citizen participation scheme – represent around 12% of total investment in the private sector. At the end of the 1990s there were five private generation companies and three private distribution firms, although the State continues to hold significant shares in generation, transmission and distribution activities. Current norms are clear and do not allow vertical integration, as the same company cannot be a generator, distributor and transmission utility. However, mergers and subsequent agreements among private foreign firms has led toward vertical integration of some utilities, (for example Eneresis and Endesa), which could be an obstacle to competition in the sector.

Generation of electrical energy increased rapidly during the 1990s and should continue developing in line with future demand of productive sectors. Energy consumption increased 50% between 1993 and 1997, reaching 12,402 gigawatts (GWh) per hour, while generation capacity reached 18,000 GWh (Table 3.3).

The National Electrification Plan, funded by
the Treasury, both with its own resources and foreign financing, made it possible to extend energy coverage to 70% of the national territory by 1998. However, Peru is below the Latin American average in terms of per capita energy production and consumption and there are major differences in electricity coverage by department. In Lima, for example, electrification exceeds 98%, while in the Amazon region it only reaches 21%. In order to reduce these regional differences, while also raising electricity production and consumption, there is a need to promote new investment to increase installed capacity, (both in hydroelectric and thermal plants), improve transmission lines and extend distribution networks throughout the country. This must be complemented with local energy generation programs for relatively isolated zones, through small hydroelectric plants and even through the use of solar or wind power for domestic consumption.

Major long-term investment is necessary to adequately exploit Peru’s abundant hydroelectric resources (Chapter 6). However, this is unlikely to be carried out by the private sector alone and would require some type of state participation. As a result there is a need to examine the profitability of projects in terms of private investment and social benefits, in order to determine the role the public sector could and should play in the development of major hydroelectric projects.

In general terms, the rates applied in Peru fall within the Latin American average. The current pricing system determines electricity rates based on economic considerations, particularly the marginal cost of an efficient producer, but also takes into account the characteristics of energy users. For example, major consumers operate in what is called the free electricity market and can negotiate the price directly with generators.

Moreover, certain activities are subject to price regulation such as sale to consumers in the public electricity system and the transfer of energy between generators. In 1997, the government announced subsidized rates for sectors with limited resources and those that consume less than 60 Kwh; they represent approximately 20% of the population.

While the complex pricing system does not require any major changes, experience accumulated during the 1990s suggests it would be appropriate to adjust some elements to promote investment and competition; maintain an adequate level of rates that allow for competition in the industry and are in line with the economic possibilities of different sectors of the population; and enable electricity to reach all of Peru’s population centers in the shortest possible time frame.

### Industry: The challenge of reconversion and competition

Manufacturing industry should become one of the main motors for economic growth in the next two decades, helping Peru move from depending on primary sectors to maintaining the dynamism of its economy and generating income. In order to achieve this in a fluid and ever-changing international context, experience related to industry policy in recent decades must be taken into account. The aim is to move progressively toward an industry with greater added value and to increase the productivity and efficiency of manufacturing firms. Only then will it be possible to successfully compete in international markets and with imports in the domestic market.

### Evolution of Peruvian industry

Toward the end of the 1950s Peru had no industrial development plans or programs. In 1959 the Industrial Promotion Law marked a change in the economic growth strategy, when an attempt was made to move from exporting raw materials to industrialization via import substitution. Throughout the 1970s, this law was complemented with several provisions on customs duties and import restrictions. In 1979 the Industries Law adopted by the military government further reinforced this scheme, adding exchange rate control and subsidized interest rates and broadening tariff protection to cover a series of categories of industrial products. In this way a multiplicity of political instruments were created – many redundant and not very effective – to influence the decisions of firms and

<table>
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<th>YEAR</th>
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<th>Hydroelectric %</th>
<th>Thermal %</th>
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<td>14,678.50</td>
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<td>1995</td>
<td>16,880.10</td>
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<td>1997</td>
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</tr>
</tbody>
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promote industrial growth.

As a result of these policies, in the 1970s and 1980s Peruvian manufacturing industry operated in an oligopolistic, non-competitive market, making intensive use of imported supplies and capital goods and operating with high production costs. The overvalued exchange rate artificially reduced the price of imports and consolidated a heavy dependency on national industry and imported supplies. At the same time, financial and credit policies reduced the cost of capital and led to a relative over-investment in machinery and equipment, while rigid labor laws increased labor costs. The result was Peru's inability to compete in international markets or with imported goods, which led to increased protectionist policies and spawned a vicious cycle of protection, inefficiency and lack of competitiveness.

Structural reforms in the 1990s, trade and price liberalization, deregulation of capital markets, tax reform and increased flexibility in the labor market all had a particularly significant impact on the industrial sector. The elimination of quasi-tariff barriers and the reduction of the average tariff from 66% in 1989 to 17% in 1991 were of particular importance. The new panorama forced manufacturing firms to restructure in order to confront a more open and competitive market and gave rise to an abrupt and improvised industrial "re-conversion" that wasted valuable learning accumulated over the course of several decades. As a result, many industrial firms disappeared, others became traders, importing the products they had previously manufactured. Others managed to survive in a precarious fashion and a few adapted to the new context. Inconsistent policies put at a disadvantage many firms that could have competed in less harsh conditions.

A look at how manufacturing production has evolved over the past 30 years as an element in Peruvian GDP (Figure 3.10) gives us an idea of the impact of industrial policies. Its participation increased progressively from 12.8% in the early 1950s to 21.4% – its highest point – at the end of the 1960s and early 1970s and has decreased ever since. Industrialization through import substitution was conceived to kickstart manufacturing industry and it was assumed that the temporary advantages given to firms in this sector would be gradually reduced. However, these policies led to indiscriminate protectionism; they lost their effectiveness and failed to create the foundation for the sustained development of Peruvian industry. This is a contrast with the experience of other countries – South Korea, for example – that complemented incipient industry protection measures with the promotion of exports, encouraging competition in foreign markets and the development of their own scientific and technological capacity.

The manufacturing industry structure also demonstrates the impact of industry policy swings over the past half century (Figure 3.11). In the mid-1950s, the participation of consumer goods industries (47.3%) was slightly higher than those dedicated to producing intermediate goods (46.4%), while the consumer durables industry registered a very small share (6.3%). From the mid-1970s to the mid-1980s the participation of intermediate goods surpassed that of consumer goods, while consumer durables and machinery exceeded 10%, reaching its highest level in 1974 (16.6%). As a result of the economic chaos at the end of the 1980s, by 1990 the structure of added value in manufacturing industry had reverted to its 1950s position. During the 1990s, consumer goods clearly predominated over intermediate goods while consumer durables and machinery steadily declined, reaching their a 50-year low in 1992-1994 (4.9%).

On the other hand, manufacturing industry's participation in exports has oscillated between 15% and 20% in the past two decades, although this includes some products with limited processing and little added value. In any case, industrial exports, strictly defined as those products with a high added value, should represent one third of total exports.

However, it is necessary to be cautious about statistics. A series of deficiencies partly derived from the inflationary process at the end of the 1980s, as well as out-of-date samples to measure industrial production and changes in categories used to register information, mean that statistics related to productive sectors in the 1990s, in particular manufacturing statistics, are not trustworthy and it is not clear whether they can be compared to figures from earlier years.

**Toward an efficient and competitive industry**

Over the course of the next two decades, Peru's industrial policy should be oriented toward establishing an efficient and competitive manufacturing industry, which represents at least 25% of GDP, has a more significant participation in exports and is structured so that capital goods and products with greater added value have greater weight. This requires a complex process of industrial re-conversion that demands the convergence of initiatives not only involving private companies, but also a broad range of public, academic and other organizations involved in industrial production. For this reason, Peruvian industry cannot be reconverted without achieving – through dialogue and agreement – an
operating consensus among all involved parties. An initial task consists of identifying the main obstacles for the re-conversion of Peruvian industry and measures to overcome them. Firms in this sector operate under the influence of diverse factors linked to the commodities and inputs market, productive processes, technological change, directors and workers and public policies that could have decisive weight in business decisions. This raises the need for a careful revision and evaluation of commercial, tax, fiscal, credit, financial, agricultural, mining, fishing, labor, technology policies and so on, in order to obtain a degree of coherence that will facilitate industrial re-conversion. The objective is that the implicit contents of industrial policy linked to other public policies aim in the same direction as explicit industrial policy (see Chapter 5 for a discussion of this issue with regard to environmental policy).

Industrial policy should be based on the operation of markets, promotion of competition and creation of rules and mechanisms to avoid unfair competition and the abuse of monopolies. The State should steer the overall process, creating a favorable environmental for private initiative, identifying opportunities for international insertion, adopting a trade policy the stimulates competition without putting industrial firms at a disadvantage, facilitating access to financing in reasonable conditions and providing the physical and public service infrastructural (transport, communications, energy, water) that allows firms to operate in an efficient manner (Chapter 6).

The tariff structure should aggressively promote industrial development and manufacturing exports, by adopting a staggered system with a maximum of three levels and a reduced degree of dispersion of around 10%. It is essential to take into account the fact that integration and trade agreements with countries in the Andean Community, Mercosur, the Free Trade Area of the Americas and the Asia-Pacific Economic Cooperation forum will severely limit the use of tariffs as an industry policy instrument in the medium-term. If we are to encourage manufacturing exports, we must improve both temporary storage facilities for materials and inputs used in export products, and the tax drawback system for exporters. In a complementary fashion, in order to avoid unfair competition, contraband and the undervaluing of imports must be combated.

FIGURE 3.10

<table>
<thead>
<tr>
<th>Ratio of manufacturing production of gross domestic product</th>
</tr>
</thead>
<tbody>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>12.8</td>
</tr>
</tbody>
</table>


The industrial sector should have fluid access, in reasonable conditions, to working capital and credit. Measures oriented toward achieving greater efficiency in the financial sector, that will make it possible to reduce interest rates, are key to improving competition in the industry sector. On the other hand, industrial funding under advantageous conditions has been one of the main policy instruments used by countries that are not manufacturing powers. While it is necessary to avoid the excesses and abuses that were committed with the development banking system, this should not be rejected as a policy instrument. Credit lines can be channeled through the private banks, in a transparent fashion with the necessary guarantees in order to promote industrial development, in particular manufacturing exports. From this standpoint, it is preferable to use policy instruments whose cost can be calculated with ease, than to use tax exemptions or incentives or exonerate firms from complying with standards and legal provisions.

Manufacturing sector exports should play a fundamental role in future industrial development. As a result, the creation of a system to promote exports must be emphasized; this includes providing information about export opportunities, technical assistance to penetrate markets, programs to improve the image of the country and its products abroad, improvements in logistics and transport and funding for exports. There are many successful examples of public, private and mixed entities that provide business consulting services, market intelligence and international marketing advice and that transfer technology to national exporters. Initiatives launched at the end of the 1990s by the Industry Ministry’s Network to Promote Investment, together with the Industrial Development Center of the National Industries Society, aim in this direction, as do other programs developed by the Exporters Association (Adex) over recent decades.

Another way to develop manufacturing industry without falling into protectionist excesses is to promote productive and market linkages between the industrial and primary sectors, aimed at
establishing clusters of related firms, to create a scientific and technological capacity capable of continuously feeding and sustaining the incorporation of new technologies and promoting industrial de-centralization.

As indicated at the beginning of this chapter (Box 3.1), productive transformation should prioritize industries linked to the sustainable use of our natural resources and extraction activities in general, creating both backward linkages (providing input, machinery and equipment) and forward linkages (processing natural resources and raw materials). For example the mining sector generates important demand for products from the metal-mechanical industry, heavy machinery and specialized equipment, supplies, energy and construction materials and for a wide range of consulting and technical assistance services, as well as for repair and maintenance of mining equipment (Table 3.4). On the other hand, mining also provides inputs for the development of industry related to refining, processing and mineral transformation. Similarly, there are discernible potential business clusters and linkages in the areas of fishing, hydrocarbons, agriculture, agro-industry, irrigation and energy infrastructure projects, in the construction industry and heavy manufacturing. As with the mining sector, in all these cases there is demand for capital goods, intermediate goods and services. Moreover, there are opportunities to link a series of industrial branches and in turn to link these to supplier firms from other sectors. For example, it is possible to link the chemical industry with the agricultural sector through the production of nitrate fertilizers (using Camisea gas) and phosphate fertilizers (taking advantage of the Sechura deposits). Another example is the textile industry which is linked to the farming sector, which provides raw material (cotton, wool) and with other industrial activities that provide inputs (ink, dyes, synthetic materials, machinery and equipment). Moreover, the textile sector generates a series of forward linkages, related to textile design and commercialization as well as many other activities. Complementary to this, conditions must be created for the emergence of clusters of interlinked productive units, capable of becoming more dynamic nuclei in the industrial re-conversion process (Box 3.7)

On the other hand, creating and strengthening technological innovation systems (Chapter 5) and vocational training programs are also crucially important for industrial re-conversion. In the information society, the main sources of competitiveness are the intellectual capacity and expertise of businesses, the skills and experience of workers, the ability to adapt and to learn, and access to information and new technology. Competitive advantages are not derived from low salaries, tariff protection or the exploitation of resources without regard for the environment. At the beginning of the 21st century, these spurious sources of competitiveness are being far surpassed by systemic competitiveness that is associated with knowledge, technology and innovation.

Among additional measures to promote technological innovation in industry is the supply of information about the availability of technologies that make it possible to compete in international markets, the establishment of a system of industrial property according to international norms, the creation of mechanisms to fund innovation in firms (including risk capital), permanent training programs for professionals and workers and the establishment of “business incubators” in research and higher education centers to stimulate the creation of advanced technology firms. Finally, the creation of joint venture companies and projects must be promoted between national firms and foreign strategic partners; these facilitate technological modernization and improve competitiveness, particularly when national firms do not have the technological, financial, professional or management resources to do this in an independent fashion.

Finally, all of these measures to support the industrial re-conversion process should incorporate a regional development dimension, in order to achieve a more appropriate balance in the geographic distribution of Peruvian industry. This implies, for example, that measures to create linkages and establish business clusters should be oriented both towards major firms with exporting capacity, that can act as promoters of business clusters outside of metropolitan Lima (Box 3.7), as well as to companies that produce on a small scale to supply local markets with technology.
and products adapted to the conditions of the area, encouraging what have been called "sustainable livelihoods" (Chapter 4, Box 4.17). It is necessary to bear in mind that small and mid-sized firms are the main actors in the process of industrial decentralization and also generate the bulk of jobs in the manufacturing industry.

Civil construction: Multiplier effect, employment and linkages

The importance of the civil construction sector in national industry stems from its capacity to generate linkages with other productive and labor sectors (Chapter 4), which has a multiplier effect on economic growth. Moreover, civil construction plays a key role in providing physical infrastructure for transportation, housing, water, energy and irrigation. (Chapter 6).

In the past two decades, this sector has closely followed Peru’s economic cycle. In times of economic expansion the sector has experienced significant growth and during recessions there has been a strong decline in its activity. Figure 3.12 shows how, since 1985, total GDP growth rates and the construction sector output have followed the same curve, with the exception of the 1998-1999 period. Taking into account that the bulk of investment in the construction sector is linked to public works, this pro-cyclical trend indicates that public investment has not been used to cushion the impact of fluctuations in the economic growth rate.

Since 1990 the construction sector has been boosted by growth in all areas of economic activity and a recovery in public investment. Between 1989 and 1994 the GDP in this sector grew 68%, an annual growth rate above 10%. Growth during that five-year period closely matches growth between 1970 and 1999, when construction sector output expanded by approximately 65%.

The construction sector boom during the 1990s was a result of an increase in public and private investment. State resources were used to repair and maintain highways and other infrastructure affected by the fall in public investment, by the Shining Path and by natural disasters during the 1980s. State resources also went into construction of new highways, water and sewerage infrastructure, electricity, educational infrastructure, irrigation projects and the construction of small public works in towns and isolated parts of the country. Economic stability and the end of terrorism fueled a strong reactivation in the construction of private housing and hotels, offices, apartment buildings and new urban areas, and also boosted self-construction.

In 1997, as a result of this recovery, the construction sector contributed 9% of GDP and directly generated 8% of total employment. However, the recession at the end of the 1990s hit hard at this sector, causing negative growth in 1999 (-12.3%) and a decline in the construction sector’s participation in GDP and employment.

Anti-cyclical policies, business development and public investment

Policies for the construction sector should be oriented towards achieving sustained and stable growth, avoiding pronounced fluctuation in activity and boosting its capacity to generate the maximum number of jobs. Moreover, they should also be geared towards taking advantage of the multiplier effect of the construction industry on other sectors of the economy. It is also important to consider the anti-cyclical role that this sector can play, which would involve increasing public investment in infrastructure and encouraging private investment in housing construction when overall economic growth declines.

In order to achieve these objectives a series of measures must be implemented including programming and decentralizing public investment in infrastructure and creating financial mechanisms to encourage the construction of housing and facilitate self-construction (Chapter 4). Taking into account the limited number of construction firms capable of taking on large-scale works in Peru and abroad, the large quantity of medium-sized construction companies capable of carrying out physical infrastructure work and the vast number of small firms that operate locally (frequently informally), policies in this sector must respond to the characteristics of each type of firm and contract.

For example, major construction firms should be capable of carrying out increasingly complex works; incorporating and adapting advanced technology; increasing their efficiency and reducing costs to improve competitiveness; and complying with international quality, security and environmental protection standards. There is a need to encourage the export of construction services to other countries and to stimulate the participation of these firms in major engineering works throughout Latin America. Among other measures, this demands close coordination with government agencies linked to the sector, with large construction firms, with the medium-sized firms that can participate as subcontractors, and with banks and other entities in the financial system, and with professionals, technicians and
workers from this sector. It also requires coordination with these agents and the government agencies responsible for development in the sector.

Without going to protectionist extremes, the participation of national firms in major civil engineering works must be encouraged both in the public sector (highways, ports, irrigation projects, hydroelectric plants) and in the private sector (major mining projects, exploitation of hydrocarbons, highway concessions). The aim is to consolidate a group of large and medium-sized national construction companies that are capable of projecting their activities abroad. Among other measures, this implies reviewing procedures for public tenders, modifying state funding and creating guidelines to promote and orient strategic partnerships between foreign and national firms.

In order to give construction firms a perspective on future demand, there must be a plan for public investment in infrastructure, particularly regarding highways and other civil engineering works. This should include both works carried out directly by the state and concessions offered to the private sector, and selection should be based on social and private profitability criteria. We need to study the creation of a National Roads Superintendency, responsible for supervising highway construction and maintenance works carried out by different state entities, as well as regulating concessions granted to the private sector.

There is also a need to decentralize decision making and the distribution of resources for public investment in physical infrastructure, by establishing a system that involves regional and local builders in civil works and strengthens the capacity of local governments (in particular provincial municipalities) to carry out small and medium-sized works so users can participate in the design, supervision and maintenance of these works. At the same time, this implies a need to modify bidding procedures for medium and small public works, to make them more transparent, avoid corruption, give them greater flexibility and adapt them to the characteristics of different works and the capacities of the different types of firms that take part in bidding.

The intervention of the Armed Forces in highway construction and other projects deserves special attention. Their participation should be limited to situations in which private and public entities face serious obstacles and difficulties such as projects on borders, in very remote and inaccessible areas, zones where there is violent conflict or areas in emergency due to natural disasters. Unfair competition with the private sector (arising from the advantages that the Armed Forces have) must be avoided; civil construction activities should not be considered an additional source of income for military institutions.

**Housing construction**

As indicated in Chapter 4, housing is fundamental if the quality of life of Peruvians is to be improved, particularly taking into account the enormous housing shortage accumulated over the course of several decades. Housing policies have a significant impact on construction and suppliers, as well as being important in terms of generating savings. One of the main obstacles to resolving the housing problem has been the reduced access of middle and lower-income families to credit. The disappearance of the Housing Bank and the Mortgage Bank left the majority of these families without funding and made it virtually impossible for them to obtain mortgages.

Funding for housing construction, both through mortgages for middle-income sectors and through direct subsidies for low-income sectors, should be key measures to solve the housing problem and strengthen the civil construction sector. A second-tier bank that operates through commercial banks, offering mortgage credit as is set out in the Mivivienda (My House) program (Chapter 4, Box 4.10) will help provide subsidies so that low income sectors can become homeowners (Chapter 4). All of this, together with measures to promote self-construction, will make it possible to avoid abrupt fluctuations and maintain adequate activity in the housing construction sector and supplier industries.

Informality in housing construction presents an additional challenge. Confronting this involves granting property titles. This will eliminate the currently precarious occupation of an enormous number of lots and will make it possible for owners to obtain mortgages. On the other hand, the application of the general sales tax (IGV) makes housing more expensive and encourages informal construction. In consequence, it would be appropriate to review the tax framework that affects housing construction and to make first-time home buyers exempt from sales tax. However, this option must be carefully evaluated, as exemptions can create precedents and problems. Another option consists of granting direct subsidies to low income families. An additional consideration is the need to formulate plans for urban development, land use and zoning that can be implemented and supervised by local governments.
(Chapter 6).

**Employment generation and links**

The construction sector is highly labor intensive and generates employment for a wide range of workers. It requires engineers and architects to design, implement and supervise civil construction works; intermediate technicians to carry out topographic and soil studies; specialists in the use of concrete, asphalt, and other construction materials; machinery and mechanical equipment operators; and workers and laborers to carry out the actual work. In general terms, there is a significant deficit of the middle-level professionals who serve as a link between the planning and design tasks carried out by civil engineers and architects and the operative work done by laborers.

Accelerated growth in this sector in the 1990-1997 period generated employment opportunities but also demonstrated a slight shortage of workers at every level. Labor demand was noticeable not only in major and middle-sized construction jobs but also in small works carried out in remote parts of the country. For example, small infrastructure projects funded by Foncodes (Chapter 4, Box 4.13) generated demand for engineering professionals to supervise work being carried out in the provinces. While at the end of the 1990s the economic crisis meant the manpower shortage disappeared, it could reappear when the construction industry recovers.

In order to avoid this probable deficit limiting development of the construction sector, there is a need to design and implement a training program for workers at every level. This program should involve the active participation of civil construction workers, professional architect and designer guilds and government agencies linked to this sector. Training will help improve efficiency, increase productivity and reduce construction costs, in particular those associated with the inadequate use and waste of materials and errors deriving from communication problems between engineers and operators. At the same time, training will make it possible to increase safety and reduce accidents.

The construction industry generates a series of backward linkages, through demand for construction material, such as cement, bricks, rocks, sand, iron, ceramic products, asphalt, electrical materials, wood, plastic, paint and so on, much of which is supplied by domestic producers. This makes it necessary to adequately program the expansion of industries that provide supplies for the construction sector, so as to avoid bottlenecks that might affect growth or raise costs. For example, in 1997 there were problems with supplies of cement, steel and iron products, because producers were operating at close to their maximum installed capacity. Measures to avoid fluctuations in the level of activity in the construc-

**TABLE 3.4**

**Existing capacity and investment opportunities in mining supply industries**

<table>
<thead>
<tr>
<th>Segment of industry</th>
<th>Existing capacity for supply</th>
<th>Investment opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small and medium-sized mining</td>
<td>Large-scale mining</td>
</tr>
<tr>
<td>A. Capital goods</td>
<td>Weak</td>
<td>Weak</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Moderate</td>
</tr>
<tr>
<td>B. Construction products</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Moderate</td>
<td></td>
</tr>
<tr>
<td>C. Inputs and energy</td>
<td>Weak</td>
<td>Weak</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Moderate</td>
</tr>
<tr>
<td>D. Technical services</td>
<td>Strong</td>
<td>Moderate/strong</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Source: Informe de UNCTAD, Análisis de las políticas de inversión: Perú, Ginebra, 1999, prepared on the basis of interviews with investors.
Clusters and linkages in industrial development

Business clusters (groups of firms) are conglomerations of productive and service activities generally located in areas that offer specific advantages (transport, communications, access to natural resources, access to specialized personnel) for the activities they carry out. A series of economies of scale and scope mean that groups of firms characterized by their geographical proximity and linkages are much more efficient and competitive than firms that operate far from their suppliers, clients and eventual competitors.

Policies to promote the development of business clusters, which are frequently associated with a series of measures to stimulate the creation of regional economies (Chapter 6), have been the foundation for the success of industrial districts in Europe, United States, Japan and recently industrialized nations in Southeast Asia. The central objective of these policies is to accumulate technological, management, commercial and labor capacity (among other factors), in all the businesses in the cluster as well as in other related organizations (universities, government agencies, local governments, professional associations, business guilds, and so on).

The most successful policies for the creation and consolidation of business clusters have been those which emphasize demand and marketing linkages for their products and those which help to develop a swift response capacity to changes in the market. In particular, public policies should encourage subcontracting among the major firms, frequently with foreign capital backing, that form the nuclei of the cluster and generate sustained demand, and the small and medium-sized firms that provide intermediate goods, supplies and services. However, this last group frequently has trouble meeting very demanding technical specifications, with quality control that does not tolerate failures, or demands short and inflexible delivery dates, such as those associated with "just in time" production systems. If these limitations are to be overcome, the experience of successful clusters shows it is necessary to offer technical assistance to small and medium-sized firms through initiatives that combine the efforts of the central government, local governments (particularly provincial municipalities) and the large firms that constitute the nucleus of the cluster.

In a complementary manner, provision of physical infrastructure and technical services, as well as proximity to higher education and vocational training centers and labor formation, strengthen the development of these clusters of firms and other organizations and promote linkages between them.

Taking into account that business clusters are frequently articulated around nuclei formed by transnational firms, it is possible to identify some lines of action to encourage and strengthen the emergence of these clusters.

- Attracting direct foreign investment in industries complementary to the central nucleus of the business cluster located in a specific zone, in order to encourage labor division throughout the production chain and generate positive external elements for already-established firms. This requires the active participation of local governments (provision of infrastructure, simplification of procedures, appropriate regulation), business guilds (preparation of projects, promotion of the zone), and the central government (identification of possible investors abroad and provision of technical and financial services).

- Supporting the development of firms, local, foreign and mixed, which provide goods and services to major transnationals that make up the nucleus of the cluster. In order to do this, an approach centered on demand and joint action between several producers must be adopted, identifying the products and services whose demand could grow in a sustained fashion, promoting subcontracting complemented with technical assistance, establishing coordination mechanisms among supplier firms, promoting schemes to reduce costs through joint purchases and other similar measures.

- Promoting the transfer of technology to local firms, particularly taking into account that the transnational firms which make up the nucleus of the cluster, as well as subsidiaries of other foreign firms that provide goods and services, tend to maintain a close relationship with their headquarters. This allows them to have access to best practices regarding production methods, quality control, logistics and distribution, business management, use of international standards, professional and vocational training, among other aspects. Foreign firms can act as agents of technological development promotion, by providing information and technical assistance to linked local firms. This can be complemented with initiatives to promote the concession of licenses for using technology, now that foreign firms rarely view local medium-sized and small firms in their area of influence as potential competitors in the international arena.

tion sector will make it possible to plan the growth of the supply industry, by providing businesses with a framework for investment decisions.

* * * *

The fundamental objective of the strategic direction on productive transformation and competitiveness is to lay the foundations for an efficient and competitive economy, capable of generating and accumulating wealth in a continuous fashion, of allowing Peru to join the world economy, exporting products with high added value and channeling internal savings and resources from abroad toward productive investment and economic growth.

Macroeconomic stability is a necessary condition, but is not enough to achieve this objective. It must be complemented with active sectoral policies that are in harmony with the market, that will allow for accelerated and coherent development of the main productive activities and that are linked to macroeconomic policies and policies associated with other strategic directions.

In the new pattern of wealth accumulation, the exploitation of natural resources constitutes the foundation for the development of productive activities with higher added value. The surpluses from primary sectors, in particular mining and fishing at an initial stage, should provide, through public and private investment, an initial impulse for productive transformation.

The productive structure must be oriented toward producing goods that increasingly incorporate greater added value. We must promote those activities that generate linkages and make it possible to establish business clusters and create a multiplicity of productive nuclei that will become dynamic agents in the Peruvian economy. This will help other productive sectors (agriculture, tourism, construction, industry, manufacturing) to become progressively linked to these nuclei and to establish, within two decades, a fully integrated and competitive economy.

Agreements between the public sector, private firms and professionals and workers are essential if we are to design and implement policies that will lead toward productive transformation and competitiveness. As guarantors of the common good, defined in the first chapter as the possibility for all Peruvians to conceive, design, choose and carry out our own life plans, state institutions should play a fundamental role in the articulation of these initiatives and efforts.
CHAPTER FOUR

INTEGRATION, EQUITY AND SOCIAL JUSTICE
INTRODUCTION

A strategic direction on integration, equity and social justice is the second set of threads in the web of Peru’s social fabric that we must remake over the next two decades, in order to endow Peruvians with the capacity to conceive, design, and implement their own life plans. The components that make up this line of action are provision of basic social services (education, health, nutrition, sanitation, and housing); poverty reduction, with a focus on eliminating endemic poverty, particularly in rural areas; and employment generation and broadening access to goods and services, which entails creation of new jobs, improving self-employment, and exploration of non-traditional ways of providing access to goods and services.

The manner of Peru’s development and economic growth during the 20th century was not designed with even distribution of income and equal opportunities in mind but, rather, to concentrate wealth and confirm the economic, social, and political exclusion of the bulk of the population. As a result, at the outset of the 21st century, Peruvian society suffers from a signal lack of equal opportunities and millions of its members live in precarious conditions. Furthermore, throughout the 1990s close to 50% of the country’s population has lived below the poverty line. Particularly serious is the situation of the 15% to 20% of the populace who have endured extreme poverty during that time, unable even to satisfy their food and nutrition needs. Never before had there been such a long interval with such a large number of people living in poverty; yet during that period the country enjoyed substantial economic growth.

Tackling social exclusion (Box 4.1), promoting citizen rights, and accumulating wealth are crucial for raising living standards and eradicating extreme poverty. Wealth consists of networks of interaction, codes of conduct, and relations built on trust, which stimulate mutually beneficial cooperation within a community. Such reciprocal exchange occurs within the family and extends to the institutions in the community at large. It is a proven fact that the greater the collaboration that exists between the institutions of a community and the more horizontally structured those institutions are, the larger the store of wealth. On the other hand, the absence of a culture of citizen rights and lack of wealth help to perpetuate social inequality and poverty. The poor have and exercise fewer civil, political, and social rights than the more affluent members of society, and that turns them into “second-class” citizens.

Improving education, nutrition, and health will make it possible to ensure the inclusion of a significant portion of the population in the country’s economic activities. While the state bears primary responsibility for this complex task—which requires much more than the social assistance and compensation policies that take a backseat to economic policy—, civil society and the private sector also have supporting roles to play.

Although some social indicators—such as poverty and unsatisfied basic needs—have improved in recent years (Figures 4.1 and 4.2), widespread inequality remains a fact of life in Peru (see Figure 4.3). In the Latin American region, Peru has one of the

**FIGURE 4.1**

*Peruvians living below the poverty line and in extreme poverty*

The notion of exclusion, the most recent definition of which was developed in Europe toward the end of the 1970s to explain the rise of new forms of social deprivation, enables us to adopt a propositional approach in examining social conditions and the persistence of poverty in Peru.

In our country, poverty is measured mainly in terms of income and unsatisfied basic needs, while disregarding other aspects, such as access to employment and participation in government. By starting from the concept of exclusion, we can relate economic, social, and political factors to the different types of poverty that are visible in Peru, and identify measures that might serve to tackle them. There are three mechanisms of exclusion that we can mention: economic, social, and political.

The economic dimension of exclusion mainly has to do with the capacity to earn financial revenue, participate in productive activities, and access goods and services. The principal factor underlying economic exclusion is non-participation in the formal labor market: it manifests itself mainly in unemployment and underemployment, plights that affect a large proportion of the labor force. Inefficient systems of production of goods and services, which are incapable of providing jobs for all those who join the labor force, mean that the poor - whose only means to generate income and thereby access goods and basic services is their physical abilities - are left in an extremely vulnerable position. The combination of scant economic growth and of inadequate, segmented and prejudiced formal labor markets rejects and sidelines those caught in the trap of economic exclusion.

The social dimension of exclusion concerns integration and equal access to basic social services. Although the basket of available goods and services depends on geographic, cultural, and ethical factors in situations of a generalized poverty, a number of aspects that guarantee a minimum degree of social integration and access to equal opportunities can be singled out: they include access to health worst showings in such important areas as quality of education, access to health services, and infant mortality.

In recent decades social policy in the Latin American countries has been addressed as a separate issue secondary to economic policy. Table 4.1 illustrates the prevailing approach in use until the beginning of the 1990s, when a number of changes designed to bring about gradual reform in this respect began to be instituted: they are, in fact, still in process of implementation.

In Peru, successive initiatives attempted in the social sphere have failed to coalesce into an integrated and coherent program to reform government action in this area. Furthermore, those initiatives have not provided for the possibility of adequate coordination of efforts by community-based organizations, non-profit civil associations and volunteer institutions, not to mention those of the various international agencies that provide support for poverty reduction in the country.

The traditional approach is based on tight state control of the design, funding and implementation of social programs. It is an approach that seeks to implant a centrally managed, standardized model, be it in the area of education, health, nutrition, population, or sanitation services. The problems that beset government social programs have
services, education, sanitation, housing, and nutrition. Social exclusion in Latin America is closely connected with the extreme inequalities that exist. Aside from the inequalities in income distribution, there is also racism, centralism, and discrimination against women, children, and the elderly, which perpetuate a situation in which the more privileged have difficulty recognizing "the other" as their equal.

Owing to their persistence, these inequalities have acquired a cultural dimension: they are now closely associated with everyday behavioral customs and patterns that impact negatively on the self-esteem of those who experience their effect. Therefore, defeating social exclusion requires a sustained effort over several decades that encompasses cultural and psychological considerations. An extreme manifestation of social exclusion is human rights violations, particularly in situations of internal conflict and violence such as Peru experienced during the 1980s and 1990s.

Finally, the political dimension of exclusion has to do with the full exercise of citizen rights, which include the right to personal security, to freedom of expression, to participation in government, and to democratic governance. If they are to exercise such rights, the populace must be able to participate actively in decisions that affect their future and have the opportunity to be heard. In order to prevent people from suffering this type of exclusion, it is essential that those in authority act in a transparent and responsible manner, abiding by the law and being accountable to the public: all of these are notions intimately associated with democratic governance.

One crucially important factor for overcoming political exclusion is equitable access to justice. Everyone must be accorded the same treatment by the justice system, which is not currently the case in Peru. A combination of factors such as subservience to the other branches of government, corruption, inefficiency, and disorganization make the justice system a fundamental cause of political exclusion. In order to overcome political exclusion it is also necessary for state institutions to operate according to clear and established democratic guidelines and procedures. To ensure that the public regard state institutions as protecting their interests it is essential to eliminate personal interest, arbitrariness, and fickleness in the exercise of political power by all government bodies.


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### TABLE 4.1

The traditional approach and ongoing social policy changes in Latin America

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Traditional approach</th>
<th>Changes underway</th>
</tr>
</thead>
</table>
| **Institutional and organizational structure** | • Controlled by the state with very limited openings for the private sector and civil society  
• Centralization  
• Vertical: ministries, agencies and programs act in an isolated manner | • Controlled by the state but with more room for maneuver for the private sector and civil society  
• Decentralization  
• Ministries, agencies and programs coordinate with one another |
| **Operating criteria**              | • Standardized supply of social services and programs  
• Comprehensive coverage with standard programs and services  
• Beneficiaries have no say in the design and implementation of social programs, nor choose services ("government knows best")  
• Available private sector services are better in terms of quality but cost more and have limited coverage | • Differentiated supply of social services and programs  
• Comprehensive coverage but adapted to local conditions  
• Beneficiaries have more say in the design and implementation of social programs, and are given a limited choice of services  
• Public sector, private sector and civil society join forces to improve quality of services and offer them at a reasonable cost |
| **Funding**                        | • Almost entirely state funded through national budget  
• Centralized allocation of resources according to administrative criteria  
• No allowances made for differences in purchasing power of users | • Mostly state funded with supplementary co-financing  
• Decentralized allocation of resources according to social impact criteria  
• Allowances made for differences in purchasing power of users |

been widely acknowledged and are summarized in Box 4.2.

**BOX 4.2**

State weaknesses in the design and implementation of social policies

During the 1990s the measures adopted by the State in the area of social policy were plagued by a number of shortcomings, including:

- Lack of information and of clarity in the use of official statistics, particularly with respect to the dimensions of poverty and public spending in social sectors.
- Regressivity of public social spending, indicating that the worst-off sectors of the population are not benefiting, even in areas like education and health. This contributes to the persistence of profound inequalities in the Peruvian population.
- Firmly centralized control and management of social programs and resources, which does not help build up the institutional capacity of ministries, regional and local government, and government agencies.
- Lack of coordination between different departments of the public sector, in particular ministries, which results in inefficient use of limited resources and duplicated efforts.
- Lack of continuity in sectoral policies, mirroring constant cabinet reshuffles and affecting key sectors like education and health.
- Emphasis on stopgap social programs and often on handouts, which hinders formulation of medium and long-range policies on issues like education and employment generation.
- Changes in the size and structure of the population are neglected in the design of social policies. In addition, population issues are not managed in an integrated manner.
- Poverty reduction programs are frequently used for political ends, which distorts resource allocation criteria, in particular as regards food aid.
- Lack of transparency in the management of many social and anti-poverty programs, which provides opportunities for corruption.

In addition to these flaws – of which only a handful of programs and entities are free – there are also strategic weaknesses. This suggests the need for an alternative, medium- and long-range approach. One of those weaknesses is the limited institutional capacity of the state agencies actively involved, or that ought to be involved, in the design and implementation of social policies; another is the government's predominantly short-term or "pragmatic" approach and practices (at times difficult to distinguish from improvisation) adopted in the areas of social and poverty-reduction policy.


Coordination between the state, the private sector, and civil society

It is not sufficient merely to increase government social spending in order for social policy to have a positive impact on living standards in Peru. Channeling more resources through inefficient institutions that lack transparency and do not coordinate with each other is not a viable option. Any increase in allocation of public resources for achieving social objectives must be accompanied by institutional reform of the organizations that provide social services. These reforms must lead to transparency in the formulation of policies, greater coordination and coherence among such policies, increased accountability in public spending, and permanent monitoring of their impact. All of this must be based on a broad national consensus whereby social policy is transformed into state policy.

Bearing in mind the budgetary limitations of the Peruvian state and the magnitude of the internal social neglect that has built up over recent decades, it will not be possible to correct the country's poor social conditions using the traditional approach, under which only government entities provide social services. In addition to involving the private sector to boost the efficiency of government agencies (through contracts or concessions), instituting new forms of service delivery (for instance, through private administration of pension funds), and promoting a greater sense of social responsibility in the corporate sector (for example, by offering tax incentives in return for philanthropy), it is essential to pave the way for broader and more active participation by civil society organizations. The government agencies in charge of social development programs must involve these organizations in the delivery of social services, poverty reduction, and employment generation. This process is being attempted in several Latin American countries, especially at the local and regional government level.

Volunteer work can bring a significant saving in the delivery cost of some social services. For example, the amount of time that women devote to the community kitchens program in various regions of Peru represents around 25-30% of the total cost of a meal. Although no estimates are available on the level of community participation in preventive health, family planning, education, and other such social programs, the volunteer work and mobilization capacity of the community would probably afford a similar saving in service delivery costs in these areas as well. Civil society organizations participating in a massive, systematic, and open manner, and organized in a way that precludes their political manipulation by government agencies and local government, could
significantly increase total resources available for providing basic social services.

A combination of increased involvement of private companies and mass participation of the self-employed sector would lead to the redefinition of the state’s role in social development and exploration of new ways to stimulate collaboration between the state, the private sector, and civil society. This would be one way to increase and ensure the appropriate use of wealth in Peru.

Finally, when addressing civil society and human development, it is essential to take into account the pivotal role played by the family as the fundamental unit of society. The individual’s upbringing depends to a large extent on family background; that makes it crucial to assess the impact of social policies on the family. Social services should serve to strengthen the family unit and to complement the upbringing received in the home. The family is a fragile structure in an environment of economic crisis and instability, where parents very often are not present to provide children with proper guidance and care. Families need the support of social services in times of low incomes and unemployment, in order, for instance, to provide children with proper, comprehensive care, while both parents are at work.

Family planning and promotion of responsible parenthood are crucial to strengthen the family and develop society. Family planning should encourage the full exercise of the rights of the individual – especially those of women – by rejecting any type of coercion by governmental or civil society organizations. The best way to improve the situation is through the education system, by providing information and guidance to young people on the family planning options available to them and on children’s care and upbringing.

**Demographic transition and social policies**

The changes seen in recent decades in the structure and size of the population (Box 4.3 and Figure 4.4) make it necessary to introduce a time perspective in social policy design in order to improve quality of life for Peruvians. It is essential to distinguish between basic social service delivery, poverty-reduction programs, and employment generation measures, bearing in mind the time frames

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**BOX 4.3**

The demographic transition process and social policies

The demographic trends of recent decades indicate that the composition and growth rate of the Peruvian population is in a process of transition. Peru has gone through a period of imbalance associated with the demographic transition that occurs when a population with high birth and death rates enters a phase in which those rates descend unevenly before converging some decades later. The population growth rate rises during the intervening period because the death rate declines more quickly than improved health services, while the birth rate – which depends on cultural patterns and habits that are difficult to change in the short term – drops more slowly. In such situations, demographic growth causes a rapid rise in demand for social services, such as nutrition, education, housing, and jobs, and that demand becomes difficult to meet despite relatively high levels of economic growth.

Various indicators reflect Peru’s demographic transition process, which has a direct impact on social and development policy, and, in particular, on aspects like demand for jobs, education, and health services. The age composition of the Peruvian population during the early decades of the 21st century will be different to that of the end of the 20th century. Life expectancy is currently on the rise and the 65-and-over age group is expanding more quickly than the other age groups, while the youngest population segment (0-14 years old) is growing more slowly even than the international average for that age group. These trends will cause shifts in the relative sizes of the various age groups.

During downturn periods in the dependence rate – that is, the population under the age of 14 and over the age of 65 in proportion to the working-age population between those ages – a larger percentage of the population can be mobilized for productive activities. This situation is potentially advantageous for the Peruvian worker, who will have less children and still few elderly people to support. However, unless sufficient adequately paid jobs can be created to absorb the larger labor force, this situation could lead to frustration and discontent.

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associated with the anticipated displacement of large numbers of the Peruvian population during the initial decades of the 21st century.

The need for integrated management of social development policies and population trends has been widely acknowledged, in particular since the adoption of the Plan of Action of the 1994 International Conference on Population and Development in Cairo. Population policy should be designed to improve quality of life by purposely linking demographic trends and their evolution over time to a wide array of social indicators. Accordingly, social policy should also anticipate the demands of the future generations that will take their place in Peruvian society over the coming decades.

There is a close link between the size, growth, structure, and distribution of the population, on one hand, and between poverty, income inequalities, and social disparities between men and women on the other. Demographic indicators, in particular, vary considerably according to geographic and socio-economic factors. For instance, while the average fertility rate among Peruvian women has decreased substantially in recent years, in the poorer rural areas of Peru the fertility rate remains above 4.5 births per woman, which is double that of middle- and upper-income urban areas.

In order to improve quality of life, it is necessary to give priority to gender issues and to the social, economic, and political rights of women. Discrimination against women in terms of income and employment opportunities is visible in all social strata; women and children continue to be the poorest of the poor. One basic step toward changing this situation will be to eliminate disparities between boys and girls in access to education, health, and other social services. Although women are playing an increasingly prominent role in productive and service activities, most of their work is done outside the labor market. Their work is fundamental for the wellbeing of the home and the community, but receives little recognition and is rarely paid.

The status of children, young people, and the elderly also deserves special attention. It is particularly important to ensure that the pension system is able to cover the needs of senior citizens, who will comprise an increasing portion of the Peruvian population over the next few decades. For this reason, it will be necessary to promote saving mechanisms that enable people of working age to enjoy a decent income at retirement. The system should also provide for the physically disabled. It will also be necessary to make certain that today’s retired and disabled people receive a sufficient income to enable them to live a decent life in the future (Box 4.4).

**Provision of Basic Social Services**

Access to the basic social services of education, health, nutrition, sanitation, and housing is the first of the three components that comprise the strategic direction on equity and social justice. Access to such services should be regarded as a basic human right because a person’s development opportunities depend on them. However, the quality and coverage of these services in Peru leave much to be desired. It is up to the public sector to provide them, but, as mentioned in Box 4.2, the measures applied by the state to deliver them are plagued with flaws and problems that impact negatively on the population that depends on them. Although the state’s efforts will continue to be hugely important, it is vital to pave the way for civil society organizations and private providers to play a supplementary role in supplying social services. The new approaches in Peruvian social policy attempted since the start of the 1990s are not necessarily leading in that direction but, rather, paint an outlook of confusion and disorder in which the failings of the public sector are apparently being replaced by those of profit-oriented private sector operations.

The aim of structuring a new set of relationships between the state, private sector and civil society is to overcome the flaws in the measures applied by the state, exclusion of Peru’s poorest resi-
Peru has a mixed – public and private – pension system: the National Pension System (SNP in its Spanish initials); and, since 1992, the Private Pensions System (SPP in its Spanish initials).

The SNP is a distributive system under which a commitment is established between the generation that contributes to the system and the generation that benefits from it. Over a given period retired pension holders receive the contributions paid by working-age employees. The pension received by individuals under the SNP does not necessarily bear any relation to the contributions they paid during their working career.

For a distributive system to function properly it must encompass a large group of workers and maintain some proportion in size between that group and the number of pensioners. In Peru, mismanagement, inappropriate use of funds intended to be held as savings, worker-pensioner proportion changes, low incomes caused by economic recession, and an increasingly large parallel economy, have caused this system to be unsuccessful. The growth of the private pension system (which attracts higher-income earners) and the gradual increase in the relative size of the elderly population that will occur over the coming decades, are major hurdles for the SNP. Although the future of the system is by no means certain, it is important to safeguard the principle of solidarity on which it is built and to learn from other countries’ successful experiences with distributive systems.

For its part, the SPP is based on the individual capitalization of funds paid by persons to private pension fund administrators (or APPs in their Spanish initials). The pension received by each worker is in direct proportion to the contributions they make and to the profitability of the pension fund. Although the individual capitalization system breaks with the inter-generational commitment and solidarity of the distributive system, it offers the potential advantage of significantly higher pensions. Experience of this system in Latin America is still very recent and it is too early to say for sure if it is functioning adequately.

The main challenge facing a mixed system is to ensure the viability of the state pension system as the main option available to the bulk of the population while, at the same time, keeping the private pension system as an alternative for higher-income sectors. As well as strengthening the systems in place in readiness for the prospective population changes, it is also a matter of urgency to ease the entry into the pension system of the vast numbers of self-employed, small- and micro-business owners, and others, by giving them the possibility to choose between the public and the private system. In the long run these measures will have a huge impact on people’s well being and, moreover, will help to boost internal saving.


**Education**

Education is the main determinant of quality of life and opportunities for advancement. The Peruvian public is fully aware that not only does the possibility of finding employment depend on education, but also job quality and income levels (Figure 4.5). Education also influences other aspects, such as health, nutrition and participation in political and cultural activities.

In Peru, the education system is still far from adequate to ensure equal opportunities, increased productivity and adoption of democratic values. Education curricula do not meet local or regional needs, nor are they designed on the basis of consensus between education experts and the community. Nevertheless, education levels have improved significantly in recent decades, mainly thanks to the fact that enrollment has risen a good deal faster than population growth, even during the difficult 1980s period. As a result, access to basic and higher education has risen.

Access to primary education, which is mainly supplied by the public sector, is almost universal;
the upshot is that the vast majority has had some formal education, which was not the case just a few decades ago. Thanks to that, increasing numbers of people are being educated: in 1993 at least around 55% of the population had completed secondary school, compared to approximately 40% in 1981. In addition, a significant proportion of people are enrolled in higher education. This proportion is actually higher than in most other Latin American countries, although the quality of that education might be questionable.

In spite of the quantitative improvement in education, significant progress has not been made in terms of equity, efficiency, quality, and relevance of the system. Most Peruvians — and that includes almost all poor people — have access only to a low-quality public education. The education system is centralized and inefficient, lacks transparency in use of resources, and is insensitive to local needs. Education curricula are designed in accordance with the official public sector program, which pays little regard to the needs and aspirations of the business sector, civil society organizations, or the academic world.

Persistently high dropout, repetition, and lagging rates in primary and secondary schools are symptoms of the deficiencies that plague the Peruvian education system. There are also serious shortcomings with respect to teaching, management capacity of the public sector, disparities in access and quality (especially between urban and rural areas), and educational materials.

Furthermore, late school entrance, the high percentage of adolescents without secondary education, and high repetition and dropout rates are three of the main education problems, which are

![Image of Figure 4.5: Income levels by quintiles and education levels reached by population of 15 years and over in 1997]

symptomatic, on one hand, of low quality and lack of equity in the education system, and, on the other, of the poverty that directly and indirectly affects children and young people, particularly in rural areas.

Peru occupies one of the lowest positions in Latin America in terms of education quality. This means, on the one hand, that Peruvians are insufficiently trained to compete in a global economy and, on the other, that many are not in a position to play an active role in the country’s political, economic, social, and cultural activities.

There are serious problems even in areas where significant progress has been recorded. In 1997 almost 1.4 million Peruvians (8.9% of the population) were illiterate, with large disparities between men (4.4%) and women (13.2%), as well as between rural and urban areas. In the extreme case of the department of Apurimac, more than half the women over 15 years old were illiterate. As Table 4.3 shows, in 1997, 8.7% of the population were completely uneducated, while almost one-third had only had a primary education.

Poor children do not have the same access to pre-school education as those born into higher-income families. The same disparity occurs in young people at the secondary education level. Public education has severe shortcomings compared to private education, which constitutes a major cause of social inequality. For example, in primary and secondary schools the number of students per teacher in the state sector is approximately 50% higher than in the private sector, and more than 80% higher in early education. Furthermore, in spite of the shortage of public resources and the enormous needs of poor people, public spending on education (around 3.1% of GDP) targets higher education more than basic education. Public resources should be directed rather at basic education, and later be progressively increased in the area of higher education.

The great strides that have been made in information technology and telecommunications have highlighted the strategic importance of education for developing the human capital that a country needs to ensure its economic and social development. However, technological progress does not only pose challenges for education; it also represents an opportunity to overcome disparities in education quality and access. For example, telecommunications and the Internet enormously facilitate distance training of schoolteachers, by providing people who live in the most remote areas with access to tutors, materials, and training.

### TABLE 4.2

**Students and teachers in the education system**

<table>
<thead>
<tr>
<th>Number of students by level and modality (1998)</th>
<th>Total in education system</th>
<th>State system</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total enrolled (in thousands)</strong></td>
<td>8,543.2</td>
<td>7,092.2</td>
</tr>
<tr>
<td><strong>School education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early</td>
<td>8,099.3</td>
<td>6,886.7</td>
</tr>
<tr>
<td>Primary</td>
<td>713.9</td>
<td>555.8</td>
</tr>
<tr>
<td>Secondary</td>
<td>4,241.9</td>
<td>3,736.5</td>
</tr>
<tr>
<td>Higher</td>
<td>2,178.7</td>
<td>1,853.0</td>
</tr>
<tr>
<td>Other modalities*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>246.4</td>
<td>133.0</td>
</tr>
<tr>
<td>Not in school</td>
<td>443.9</td>
<td>405.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Teachers by level and modality (1997)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total (in thousands)</strong></td>
<td>362.4</td>
<td>273.5</td>
</tr>
<tr>
<td><strong>School education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early</td>
<td>357.8</td>
<td>270.5</td>
</tr>
<tr>
<td>Primary</td>
<td>30.8</td>
<td>19.8</td>
</tr>
<tr>
<td>Secondary</td>
<td>156.3</td>
<td>128.9</td>
</tr>
<tr>
<td>Higher</td>
<td>112.8</td>
<td>89.2</td>
</tr>
<tr>
<td>Other modalities*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>45.4</td>
<td>25.9</td>
</tr>
<tr>
<td>Not in school</td>
<td>4.8</td>
<td>3.0</td>
</tr>
</tbody>
</table>

* Includes special needs and vocational education

Source: INEI, CuAnTo S.A.

Given the budgetary constraints of the public sector, as well as institutional weaknesses and the magnitude of state education, the education system will have to be reformed gradually. Raising instruction and schooling standards requires a series of reforms that will take several years to carry through. Some have already commenced (Box 4.5). It is essential to define policies for restructuring teacher-training institutions, for training early education teachers, and for instructing primary and secondary education teachers in individual and group learning methods, particularly in more remote and poorer areas of the country. At the same time, it will be necessary

### TABLE 4.3

**Level of education reached by the adult population (1940-1997)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No education</td>
<td>57.6</td>
<td>37.6</td>
<td>26.3</td>
<td>15.7</td>
<td>12.3</td>
<td>8.7</td>
</tr>
<tr>
<td>Primary</td>
<td>36.8</td>
<td>46.3</td>
<td>47.7</td>
<td>42.7</td>
<td>31.8</td>
<td>29.9</td>
</tr>
<tr>
<td>Secondary</td>
<td>4.7</td>
<td>11.2</td>
<td>20.4</td>
<td>31.4</td>
<td>35.5</td>
<td>40.1</td>
</tr>
<tr>
<td>Higher</td>
<td>0.9</td>
<td>2.3</td>
<td>4.4</td>
<td>10.2</td>
<td>20.4</td>
<td>20.1</td>
</tr>
</tbody>
</table>

*Unspecified sampling or percentage error in 1961: 2.6% and 1972: 11.2%"
gradually to give more responsibilities to teachers and schools and to reward quality teaching with better salaries. It is also necessary to increase the amount of time spent in education by students by lengthening the school day and the school year.

Improving education quality will depend on instituting financial and administrative reforms of the education system. The general guidelines of an educational reform program should reflect the conviction that having a good and accessible education system is essential for the solution of Peru’s political, economic and social woes. For reasons of integration, equity and social justice, and for tackling the challenges of the information society and of a competitive global economy (Chapter 2), it is vital to adopt measures designed to improve education quality and to equalize access to this service.

At the same time as adopting an integrated outlook on education’s role in the various spheres of human development, it is necessary, by encouraging public and private investment in the sector, to improve management of the education system, in order to make it efficient and equitable. This requires that the public sector, education experts and private citizens reach national consensus on education reform. This consensus must include the structure of the education system itself, teacher training, teaching methods and curricula, the role of science and technology in education, decentralization and differentiation of the state education system, the importance of higher education, and the need to focus on early childhood education as a priority.

**Teacher training**

Improving the quality of education requires, first of all, substantive changes in teacher training and salaries. Peru’s basic education teaching corps is predominantly composed of young, inexpert, very badly paid, and very poorly trained teachers. Over 40% of teachers do not have teacher-training qualifications and the majority of those that do, have not specialized in any field. This situation applies to most teachers in rural areas, where education needs and problems are greater, meaning that many will have difficulty acquiring the necessary skills and expertise for addressing the education challenges posed by a fragmented world order.

Teachers’ salaries should reflect the huge importance that education has for the development of the country and be geared to individual performance. Teachers should be rewarded for their dedication and impact on their students, and not just for length of service. The heavily centralized nature of the education system prevents public school teachers and principals from adopting innovative measures or adapting educational programs to match community interests. Furthermore, although a number of experimental programs have been initiated with the aim of forging closer school-community ties, the community does not have a sufficient degree of social control over schoolteachers and schools.

As a preliminary measure, it is necessary to implement teacher-training and upgrading programs for primary and secondary school teachers. This task should not be regarded only as an emergency measure, but as a continuous process designed to ensure certain standards in education quality. These programs (which should be carried in a time frame of four years) could be carried out at state universities with teacher-training faculties and at private educational institutions.

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**BOX 4.5**

**Current trends in state education**

Although the main advances made recently in social policy have had more to do with increased social spending than with any qualitative improvements, during the 1990s the government launched a number of programs designed to improve the quality of education and set a series of reforms in motion. Although they have not yet had any significant impact, these initiatives are an important point of reference for instituting improvements in the short and medium terms.

The government initiative designed specifically to correct the deficiencies that exist in basic education is the Program on Improvement of the Quality of Peruvian Education (or MECEP in its Spanish initials), which was launched in 1995. The MECEP gives top priority to primary education and puts secondary and early education further down the scale. The main objectives of the program are to improve quality of learning and teaching, implement a student evaluation system, and modernize infrastructure and management in schools and in the sector as a whole. This initiative gave rise to the National Teacher-Training Plan (or PLANCAD in its Spanish initials), which is a training strategy that involves state universities, teacher-training institutes, and non-governmental organizations.

In addition, a general education reform process has been underway since 1997. Some of its objectives are: to provide early education for all five year-olds; to reform the primary school curriculum; to shorten secondary education to four years; and to create a two-year baccalaureate as an intermediate stage between secondary school and university or technical studies. It is proposed to meet these objectives between 2000 and 2007. Furthermore a program is being carried out to promote private investment in the education sector. One important upshot of these reforms is that, in adopting the baccalaureate and early education as part of the formal basic education system, the number of years of compulsory, free education provided by the State will rise from 11 to 13.
Furthermore, a change of legal and institutional framework is needed in order to promote teaching as a respectable and well-paid career in the state sector (Chapter 7). Currently, the majority of schoolteachers work as contracted staff and have only gone into teaching because of the lack of alternative employment opportunities during periods of economic recession. It is vital to change this situation by recruiting, training, and retaining people with a true educational vocation.

**Better teaching methods and curricula**

Given the cultural and socio-economic diversity of Peruvian society, improving learning in schools requires a permanent review of teaching practices and the use of up-to-date materials differentiated according to the characteristics of each area. Education must cover such core aspects as scientific approach, ethical values, and democratic practices.

At the same time, instead of concentrating efforts on imparting knowledge that may become obsolete, education should encourage innovation, flexibility in the face of change, and development of criteria in young people that enable them successfully to face their future. Teachers should strive to ensure that their students “learn to learn” and to regard education as a permanent ongoing process that continues throughout life.

For these reasons, primary and secondary education should be integrated and comprehensive, and seek to form students who are well-rounded and not just trained for work. That said, it is necessary at all levels of education to underline the importance of the link between learning and practice.

**Education, science, and technology**

As we move into the 21st century, basic concepts and scientific and technological progress should facilitate teaching and, in particular, teacher training. Primary and secondary education should provide a solid foundation of scientific and technological knowledge, make use of information technologies, and cover such subjects as mathematics, biology, and the physical sciences, and, at the same time, seek to connect those subjects with productive and social activities in the local community.

Peru’s complicated geography highlights the importance of information technologies for overcoming regional disparities in terms of education quality and access. In this sense, telecommunications and information networks can place a quality education within everyone’s reach, enabling interaction with schoolteachers and first-tier programs, even in the most remote areas (Chapter 6). The enormous potential of distance learning is becoming increasingly clear, not only via television and radio, but also via interactive media, such as electronic mail, CD-ROMs, and tele-conferencing. By the end of the second decade of the 21st century all secondary schools and the vast majority of primary schools will be connected to the Internet and have sufficient resources to enable students to access tele-education programs.

**Decentralization and differentiation in state education**

During the 1990s, the governmental authorities’ excessive centralization and unwillingness to engage in dialogue were the main obstacles preventing the education system from responding to the challenge of equity and from adapting to local community and globalization demands. The principal institutions managing the education system are the Ministry of Education, which is in charge of formulating sectoral policy and heads a vertical, centralized structure; and the Ministry of the Presidency, which has been gaining increasing importance in this and other areas of social policy.

Despite the cultural and geographic diversity of Peru and differing local aspirations and expectations, a set of rigid norms and a standard studies plan are applied in all public schools and in the majority of private ones. Although the central government is responsible for designing a basic common curriculum and administrative standards for the whole system, it is important to recognize the right of parents to participate in their children’s education, and the need to adapt curricula, methods, and school calendars to specific local conditions.

Furthermore, school principals bear primary responsibility for the performance of their schools. However, in state schools they have very limited autonomy and decision-making capacity; they cannot hire and dismiss staff, change procedures, alter work timetables, make physical infrastructure changes, raise funds independently, or adopt financial decisions without first consulting their superiors. The excessively rigid standards imposed on schools by the Ministry of Education prevent them from functioning adequately. Many of these hindrances also affect private schools, particularly with respect to curricula, work timetables, and evaluation procedures.
In the same way as we trust a doctor's capacity to diagnose illnesses and prescribe cures, it is essential to trust in the judgment of education professionals with respect to a school's administration, the education needs of students, and the best way to organize teaching. Judging by the restrictions imposed on teachers, one would think that they were unskilled laborers rather than professionals.

Delegating authority to school principals requires a clear willingness to decentralize on the part of the government, as well as explicit recognition of the diversity of conditions that schools face in different parts of the country. Differences should be recognized and respected, local analysis and planning capacities appreciated and utilized, specific local needs taken into consideration, and a local control system implemented based on accountability and education management results. School principals should be able to present work plans for evaluation by committees composed of parents, local professionals, and municipal authorities in charge of monitoring education quality.

Reform of the education system structure

The education system is divided into four levels: three basic levels corresponding to early, primary, and secondary education; and a fourth level which is higher education. The public sector predominates at all levels of education, in terms both of number of the education establishments and enrolled students, and of number of teachers. This predominance is greatest in primary schools, and somewhat less marked in secondary and early education. Overall it is estimated that the public sector provides approximately 85% of education across all levels.

Once the initial phase of teacher training and upgrading is complete, it will be necessary to proceed with a gradual reform process—without hurrying, but without pausing either—which will start with the introduction of improvements in primary and secondary schools. The process will advance by grades at a rate of one grade per year. In this way the reform process should take between 15 and 20 years—assuming there are 13 years of compulsory education, as proposed by Foro Educativo, and adding on the time needed to reach national consensus on the reform program, develop a detailed design of the new system, and conclude the initial teacher training and upgrading phase. It is important to take into consideration the proposals put forward by Foro Educativo for guiding these changes. Those proposals are based on a thorough analysis of Peru's education problems and an awareness of the future evolution of the information society (Box 4.6).

The proposal of Foro Educativo for basic education reflects a strategic overview of social policy in Peru and of the demands of the new world context. The proposal sets out medium- and long-term goals for carrying out a profound reform of the methodology, infrastructure, management, and supervision of the Peruvian education system. For it to be successful, this proposal requires the commitment of the whole of society in training its citizens. It is important to mention that the scheme proposed by Foro Educativo and the guidelines presented in this section do not appear to be compatible with the education reform program initiated by the government toward the end of the 1990s. For example, the emphasis on the baccalaureate (intermediate level between secondary school and higher education) and the attendant increase in the length of compulsory, free education appear to be at odds with the need to concentrate the limited resources available on the more basic aspects of a quality education, which remains beyond the reach of the majority of the Peruvian public.

Implementing the strategy proposed by Foro Educativo requires fundamental changes in the orientation of education. Among those changes, we might mention extending to a period of 13 years the length of compulsory education that the state has the obligation to offer all its citizens (covering both primary and secondary school); a significant boost in the amount of public resources allocated to education; restoration of the image of teaching as a respectable profession; and decentralization of teaching and management.

Early childhood care

Designing social policies in the short term for preparing children for education is a matter that deserves the utmost care. This requires integrating initiatives in the areas of the health, education, and nutrition, and tailoring them to the needs of children during the first five years of life. This objective should be coupled with programs designed to improve parents' performance as educators and strengthening of services provided by public and private day-care centers, since many mothers have to work in order to help with the upkeep of the home. In particular, it is essential that low-income households have ac-
The reform of the education system proposed by Foro Educativo takes account of two educational channels: formal education and informal education.

Informal education is that received outside the education system in a regular or intermittent manner. It has clear educational objectives: it originates from the family, the neighborhood, the work place, recreation centers, mass media, and other sources. It is important to bear this channel in mind for the positive or negative effects of its messages in terms of values, and for its potential to reinforce the learning imparted at school. Informal education acquires particular importance in rural areas where, when combined with the formal system, it can help to conserve and transmit local expertise, cultural values and community needs. Foro Educativo proposes to integrate the informal system with the formal system in order, thereby, to facilitate greater access to the formal education system and employment.

Foro Educativo proposes to establish four levels of formal education: early, primary, secondary and higher; it will take into account general concepts like basic education, vocational training and teacher training, and specific modalities such as adult education and special needs education. The first three levels are considered compulsory.

Early education entails, as a preliminary aspect, care for children aged zero to five, when the child requires special attention to ensure its personal and social development. Nurseries would be organized for under-threes, and kindergartens for children aged three to five, both in school and non-school programs, and adapted to local and regional conditions and possibilities. A second aspect refers to bridging the transition from early to primary education via a course that extends from the last year of early education to the first two or three years of primary school and develops such skills as reading and writing, basic arithmetic, self-esteem, identity, and motor skills, among others.

Primary education would target children between the ages of six and 12 and would aim at developing critical and creative awareness in children, with a view to their integration in society. Primary education would mainly be offered under formal school programs and would include modalities for adults and adolescents without basic education, and for persons with special physical, mental or social needs. It would be divided into two three-year courses: the first articulated with early education and the second with first-year secondary school.

Secondary education would consist of six years divided into two courses (basic and intermediate). Secondary education would be imparted to children and adolescents until they reach majority of age and join the labor market. The aim of this level would be to provide the adolescent with a multipurpose education and basic technological, business, and vocational training, as well as a well-rounded personal and social education in responsible citizenship.

The basic secondary education course would broaden the objectives of the primary education course by providing general instruction and common basic skills, rounding off students’ integral development in intellectual, personal and affective terms, and preparing them to enter the labor market. At the end of the basic course students would have three options: enter the intermediate secondary education course (recommended for most students); pursue an intermediate technical career; or enter a special professional training center (the latter two options are available outside the school system). It should be mentioned that the two secondary education courses must include education modalities that cater to adolescents, young people and adults, and also to people with special needs.

Completing the intermediate secondary education course would be a requirement for entrance to higher education. It would offer a firm foundation in the humanities, sciences or technological fields aimed at top-level higher education studies and the skilled job market. It is proposed that in this course the adolescent have access to work experience via educational modules in different areas of the labor market. Technical training modules are recommended for each year of the intermediate course.

As a result, university entrance competition is now stiffer, in particular in state universities. The overall efficiency of the system has apparently improved: where in the 1970s only 34% of students graduated, currently 71% do so. The proportion of graduates who managed to obtain a professional qualification has also increased, although at a slower rate. However, there is still a marked disparity of opportunities between people from more and less affluent backgrounds. Young people from the underprivileged sectors generally do not have access to private universities because they are unable to afford the cost. At the same time it has become more difficult to secure a place in state universities. Although some private universities do not boast a particularly high academic standard, in higher education – as in basic education – the services offered by private institutions are, by and large, superior in quality to those of state institutions.

The higher education system should be pluralistic and offer a broad and diverse range of opportunities made available through public, private, and non-profit civil society organizations. However, state universities and institutes have a special responsibility to ensure equality of access to a quality education. Study programs should tie in with a development strategy, attempt to meet the demands of professionals and experts, stimulate scientific research and technological creation, and prepare citizens who are mindful of their rights and duties and of their social responsibility to the vast majority of people who have not had the same opportunities. A university, be it public or private, should be a public space and a meeting place where young people from various backgrounds can learn mutually to recognize each other's qualities, exchange points of view and experiences, and help forge the pluralistic and integrated identity that Peru ought to have (Chapter 8).

For state higher education to meet those objectives, it is vital that it employ efficiently the limited resources it has available, most of which are provided by Treasury. Among other aspects, this entails healthy and fair competition between universities to attract students and raise funds, which requires ensuring a high level of management transparency and accountability. To help students make the best choice of higher education establishments, the latter must provide trustworthy information about tuition fees, repetition and dropout rates, application-entrance ratio, qualification and experience of the teaching staff, level of financial support students can expect to receive, and other factors. Information like this would stimulate competition for offering a high-quality, low-cost education. It is also necessary to examine the possibility of setting up a system of student loans (Box 4.8).

In a context of funding shortage and proliferation of higher education establishments with unequal teaching and research capacities, it would be advisable to encourage the formation of consortia of universities and technical institutes. These consortia would include public and private institutions, which would be located in various parts of the country. This would make it possible to make the most of institutional strengths through specialization and joint programs. In turn, this, would help consolidate the importance of centers of learning in particular fields and regions of the country and would result in a better academic grounding for students.

Health, nutrition, and sanitation

Universal access to health (with an emphasis on prevention), sanitation and nutrition services
is an indispensable requirement for a healthy population that enjoys a good quality of life and is able to contribute to all dimensions of national life.

Average life expectancy in Peru rose from 48 to 67 years between 1960 and 1994, due in great measure to progress made in health and nutrition and in access to drinking water and sanitation services. The incidence of acute respiratory and infectious intestinal diseases declined significantly, and other indicators intimately associated with health, malnutrition, and coverage of sanitation services also improved.

Several reforms relating to design and implementation of health policies were launched in the mid-1990s. Some have achieved quite positive results (such as giving priority to basic health and maternal-infant health programs); others, in contrast, have come under a barrage of criticism (social security reform, for example).

One important initiative was the Program on Basic Health for All (or PSBPT in its Spanish initials), the aim of which was to provide universal access to basic health services. It is estimated that between 1995 and 1997 the percentage of Peruvians that had access to the services of the PSBPT rose from 44% to 59%. Furthermore, child vaccination programs achieved almost 100% coverage, with the result that Peru is above the Latin American average in that respect. Health insurance was also created for school-age children and university students, although there are large gaps in coverage. For instance this insurance does not cover children who are not in school, even though they tend to be the poorest and, therefore, most vulnerable to disease. By the same token, only about 22% of the population are covered by the social security system, 1.5% have private health insurance and 2% receive their health care from establishments connected with the Armed Forces.

The deficient health service coverage shows that much still remains to be done. Only 44% of the public had access to these services in the first half of the 1990s, while more than one-quarter lacked potable water, and over 40% were without sanitation services. The incidence of communicable diseases and Peru’s maternal mortality and chronic malnutrition rates were among the worst in Latin America.

High incidences of the main communicable ailments – acute respiratory diseases, diarrheic infections, malaria and tuberculosis – are closely associated with deficient sanitary services. In particular, water-related and waterborne diseases are one of the main causes of disease and mortality. Peru has one of the highest incidences of diarrhea in Latin America. Moreover, various studies reveal a close negative correlation between infant mortality and access to potable water and sanitation.
TABLE 4.4

Health service availability indicators

<table>
<thead>
<tr>
<th>Health service indicators (1996) (Rates per 10,000 inhabitants)</th>
<th>Peru</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doctors</td>
<td>10.3</td>
<td>14.9</td>
</tr>
<tr>
<td>Dentists</td>
<td>0.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Nurses</td>
<td>6.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Beds</td>
<td>17.9</td>
<td>25.0</td>
</tr>
<tr>
<td>Infrastructure indicators (1996) (Number of establishments)</td>
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</tr>
<tr>
<td>Total</td>
<td>7,306</td>
<td></td>
</tr>
<tr>
<td>% Total</td>
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</tr>
<tr>
<td>% Public sector</td>
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<td></td>
</tr>
<tr>
<td>% Private sector</td>
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<td></td>
</tr>
<tr>
<td>Total Hospitals</td>
<td>472</td>
<td></td>
</tr>
<tr>
<td>% Total Hospitals</td>
<td>100.0</td>
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</tr>
<tr>
<td>Private sector</td>
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<tr>
<td>Number of centers</td>
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</tr>
<tr>
<td>% Total number of centers</td>
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<td></td>
</tr>
<tr>
<td>Number of posts</td>
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<td></td>
</tr>
<tr>
<td>% Total number of posts</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Number of other</td>
<td>20</td>
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</tr>
</tbody>
</table>


Food security, nutrition, and health

The Food and Agriculture Organization of the United Nations defines food security according to three indicators: (i) the capacity of the population to purchase food; (ii) the availability of food of sufficient quantity and quality; (iii) use of food to its maximum nutritional potential. Food security is intimately associated with poverty. It is estimated that some 50% of the Peruvian population is exposed to food risk. The deficient diets of children in extremely poor households have negative repercussions on their physical, intellectual, and even linguistic and moral development.

One alarming fact is that in 1993 close to one-half of first-grade primary school students suffered from chronic malnutrition. Toward the end of the 1990s almost one-quarter of under-fives were still suffering from this plight, which affects more than 40% of children in extremely poor households. Peru is above the Latin American average in terms of incidence of child malnutrition but below average with respect to calorie consumption. According to the United Nations, per capita daily calorie supply in Peru (a country of “intermediate human development”) was 1,883 in 1992, a figure lower even than the average recorded in low human development countries, where the calorie supply was 2,662 that same year.

Peru’s serious food security problems also have to do with the high and rising volumes of food imports, and with the scant value attached to locally produced food with high nutritional content. The situation has reached the point where food security even in rural food-producing areas has also become precarious.

It is hardly surprising, then, that millions of Peruvian depend for their survival on food aid handed out by government institutions, such as the PRONAA and the Food and Nutrition Program for Families at High Nutritional Risk (or PANFAR in its Spanish initials); non-governmental organizations like CARITAS and OFASA; community-based organizations like community kitchens; and international cooperation agencies like USAID and the Canadian International Development Agency (CIDA).

However, these initiatives are not adequately coordinated. That results in duplicated efforts, failure to provide assistance to those most in need, and unnecessary expense. Of greatest concern is the fact that these programs foment a culture of aid-dependence, which, in many cases, produces feelings of humiliation. This fact is particularly grave when combined with the patronage exercised by certain government agencies which demand political allegiance in exchange for aid.

Access to a basic basket of food should be regarded as a universal right, regardless of income level, social status, or geographical origin. For this to be so, it is necessary to bring about a radical change in the attitude and modus operandi of a number of government agencies responsible for providing food assistance. These initiatives should be based on respect for persons who find themselves in a situation of extreme vulnerability.

Leaving aside the issues of social compensation, solidarity, and even charity, it is vital to find sustainable ways to ensure sufficient food for the entire Peruvian population, by stimulating personal enterprise. Providing support for agriculture and income generation activities can contribute to that end, especially in rural areas. However, it is also necessary to change eating habits, which currently reflect a preference for imported products over local produce, whose nutritional content is frequently higher.

Toward a national health policy

It is imperative in the short term to design a national health policy that articulates public and private services and local health networks. This policy should derive from broad-based discussion and be based on national consensus. It must also be closely coordinated with programs on nutrition, sanitation,
and education, in order to provide comprehensive care, especially to the most vulnerable groups.

One of the first steps consists in defining a basic health package composed of a range of interventions and services that are accessible to the whole population. This package could be financed with public resources and its components supplied by various public institutions, civil society organizations, and private businesses. It should vary in accordance with the sanitary risks in each geographical area and be open to change and improvement.

As more resources are obtained and certain related issues such as sanitation, family planning, and nutrition are managed in a more integrated manner, it will be possible to broaden the range of interventions and services contained in the basic package. At the present time the government has undertaken to provide health services to all expectant mothers and children, and to guarantee a supply of blood, rabies vaccinations, and access to iodized salt for the whole population.

In addition, funds and care for diseases that require costly treatment should be allocated according to criteria of equity and solidarity. Peru must avoid a situation where income is the only or the main determinant for receiving adequate care.

Broadening coverage and the state's role in health services

National health indicators conceal very marked regional differences. Reducing those differences should be a core objective of public health policies. For example, there are profound disparities in terms of infant mortality statistics between Lima and the rest of the country, and between rural and urban areas. Between 1987 and 1996 the infant mortality rates recorded in Lima and Callao were under 30 per 1,000 live births, while rates in certain departments, like Puno, Cusco, and Huancavelica, were over 80 per 1,000. This is due, among other factors, to high poverty levels and difficulty of access to basic health services in rural highland and jungle areas.

By contrast with basic education, nationwide health services coverage remains very weak. Proximity of health centers, physical infrastructure for accessing them, and numbers of available hospital beds per inhabitant vary hugely in different parts of the country. For instance, in 1996 there was a national average of 10.3 doctors for every 10,000 inhabitants; however, while in Moquegua the average was 30.5, in Apurimac it was just 2.9.

In addition, the vast majority of the population lacks any kind of health insurance. Yet, during the 1990s, public primary health care establishments began to charge clients modest fees for services. To date, a reliable mechanism for exempting the neediest from these fees has yet to be established. In 1996 almost one-third of sick people and accident victims did not seek professional medical advice, probably because they could not afford it. An urgent review is required of this situation in order to ensure that those in greatest poverty have access to health services.

Although the private sector and civil society organizations are playing an increasing part in the provision of health services, the State - Ministry of Health, EsSalud, and other public institutions - will continue to bear primary responsibility and to play the dominant role in this area (Box 4.9). In 1996, 45% of sick people and accident victims went to public establishments for treatment: 21% to social security establishments; 2% to armed forces hospitals; only 15% to private clinics or doctors’ surgeries; and 11% went to pharmacies. In spite of the importance of public health services, public spending in this area - equivalent in 1996 to 2% of GDP - remains below the Latin American and Caribbean average, which is close to 3%. This level of spending has for a long time comprised a quite small component of overall public spending: less than 5% between 1980 and 1994, although after 1995 it rose substantially, peaking at 7.5% of total spending.

Mental health is another area that requires much more attention than it is receiving at present. The precarious living conditions of the majority of Peruvians, the difficulties that families face in order to survive and remain together, and the challenge of finding a job or some other way of making a living, generate enormous pressures that affect the emotional and mental stability of individuals. Added to this are the problem of low self-esteem and a peculiar combination of frustration, rebelliousness, and resignation that many living in poverty feel. All of this creates conditions conducive to the appearance of psychological disorders that should be recognized and treated as such.

At the same time it is necessary to broaden access to family planning services that are based on respect for the rights of women and families and that accord priority to education and dissemination of information. Among other aspects, this entails eliminating financial incentives and other forms of pressure to encourage surgical sterilization. It will also be necessary to design - in coordination with educational institutions - responsible parenthood programs that could include compulsory courses on these issues in secondary schools, debates in higher
education establishments, and awareness campaigns in the mass media.

Toward a pluralistic, equitable, and efficient health system

Apart from broadening coverage of health services, mainly through measures adopted by the state, national health policy should lead in the medium term to the pluralistic, equitable, and efficient provision of health services for the entire population. This will entail instituting a series of changes designed to involve a larger number of actors in the health system, as well as coordinating their activities. A number of guidelines that ought to form part of a national consensus on the issue of health are:

- To strike a more appropriate balance between curative and preventive efforts, through progressive reallocation of financial, human, and material resources between these two components of health services.
- To overcome the huge imbalances in service provision associated with the concentration of spending in urban areas, inadequate distribution of health professionals throughout the provinces, and deterioration of medical posts and hospitals in rural areas. Among other aspects, this involves adopting measures – such as financial incentives, training opportunities, and rapid promotion – designed to maintain qualified professional and administrative personnel in the country’s interior.
- To broaden citizen participation in decision making, service provision, and oversight of health institutions at the local level, which will lead to greater transparency in the management of these establishments, stimulate volunteer work to supplement public resources, encourage accountability, and make for greater efficiency in the use of resources.
- To progress toward a pluralistic health system that combines direct state action – through the

BOX 4.9

Social security and health services

Health service reform is a subject for broad national debate, given that it has a major impact on the quality of those services and on the access to them of a considerable portion of the population. The privatization process underway in Peru was ushered in with the 1997 promulgation of the Social Security Modernization Law and the General Health Law, which have provoked great controversy.

For several years, poor management by the Peruvian Institute of Social Security (or IPSS in its Spanish initials) prompted debate over the advisability of privatizing it. It was suggested that private sector involvement in health services could enhance efficiency by forcing the IPSS to function better in order to compete with other providers. However, experiences in other countries show this to be a very delicate issue and that private services are not always the best alternative to public services, particularly bearing in mind social solidarity criteria.

After the way was cleared in 1997 for the entry of new private health providers, in 1999 the IPSS was changed into EsSalud. Unlike the IPSS, EsSalud is part of the central government and, in practice, its resources no longer come from an intangible fund provided by contributors to the system. According to the government, EsSalud marks the incorporation in social security policy of the perspectives of prevention and universality and has enabled the range of services to be broadened. It claimed that EsSalud would ensure broader coverage, increase the number of insured, allow more efficient management of resources, and provide comprehensive care for regular contributors under service contracts with other providers. In addition, EsSalud would be implementing social extension programs and health schemes on behalf of the uninsured, low-income sectors, and accident and disaster victims.

However, institutions like the Medical College and the Peruvian Academy of Health warned that the new system would increase inequality of access to social security and would not provide adequately for the needs of the poorest. Private health providers compete with EsSalud for health services, but only in the area of non-serious diseases and simple treatments. In other words they are not under any obligation to provide the more costly services, which are the responsibility of EsSalud. Although EsSalud will benefit from increased revenue in absolute terms, it will have to cope with more patients and will receive fewer contributions from the better off insured, who will transfer to private providers. This will result in "skimming off the cream" from the social security system and condemning the rest to the lower-quality services of EsSalud. Furthermore, as EsSalud will provide support to the more deprived it also appears likely that it will have fewer resources for pensioner care. In other words, under the current system, there is a danger of leaving unprotected the vast majority of insured Peruvians.
Ministry of Health – with that of autonomous public organizations, the Armed Forces, local care networks, private businesses, and non-profit organizations. This system should coordinate and organize activities at the national level, in order to ensure in the medium term access to health services for the whole population, regardless of income levels. In particular, this entails:

- Strengthening establishments managed by the Ministry of Health with a view to providing free – or virtually free – care to those unable to afford it.
- Gradually broadening social security coverage by improving its efficiency and quality so that it can compete with the private sector without losing its solidarity characteristic.
- Encouraging the participation of private enterprise in a variety of health services, which would range from basic care to more costly treatments provided under contracts with the Ministry of Health, municipalities, or the social security system, provided that the cost of these services is lower than those of public institutions.
- Defining specific areas in which the health institutions of the armed forces might participate, such as primary care in border areas and in more remote regions of the country.
- Supporting the creation of private companies to provide health services for those segments of the population that can afford them. These companies will not receive any support from the state or the social security system.
- Stimulating, in coordination with civil society organizations, the creation of local and regional preventive health and primary care networks, to which end it will be necessary to improve and broaden the existing system of Local Joint Health Services Management Committees (or CLAS in their Spanish initials).

Sanitation and potable water

The country’s sanitation services are clearly burdened with problems that directly affect health, in particular where communicable diseases are concerned. According to the 1993 national census, that year, 40% of the population still lacked a potable water supply and a similar percentage did not have adequate sanitation services. There have been a number of significant improvements in recent years: between 1994 and 1996 alone the proportion of the public with access to water distribution systems rose by 5%; over the same period there was a rise of 11% in the number of people with access to public sanitation. Nevertheless, much remains to be done in this area.

Adequate provision of sanitation services and drinking water demands very close coordination between public health and housing policy. The cholera outbreak in the early 1990s showed that problems of the water and sewage services make us very vulnerable to waterborne infectious diseases. However, the success with which that epidemic was tackled – the result of the mass mobilization it prompted and the widespread use of very inexpensive kits containing rehydration salts – appears to have created a false sense of security and postponed the need to undertake significant investments in order to improve water and sewerage systems in urban and rural areas of the country.

Bearing in mind the limited availability of public resources, over the next few years it will be necessary to supplement them by appealing for support – in the form of concessionary loans – from international financial organizations, bilateral cooperation agencies, and the private sector, in order to ensure that all households are adequately supplied with potable water and sewerage services. To achieve this it will be necessary to explore a wide range of technological options, particularly for providing these services in remote parts of the country.

Housing

Housing characteristics – type of construction, availability of services, number of occupants, and others – directly influence the quality of life of occupants. Three of the five basic needs examined in recent studies on housing conditions in Peru refer to physical characteristics of homes or to their manner of occupation: “homes with inadequate physical characteristics,” “overcrowded homes,” and “homes without sewerage.” This fact highlights the importance of a housing policy designed to ensure that all families have access to acceptable housing (see the section on the construction industry in Chapter 3).

A large portion of the Peruvian population lives in homes with inadequate physical characteristics and with insufficient and deficient services. Many homes, moreover, are made from temporary materials (Table 4.5). Furthermore, there are marked differences between the quality of rural and urban housing, in addition to which the vast majority lack property titles.

There is an estimated housing shortage of 1.3 million homes, of which 445,000 units – more than
one-third of the total – correspond to Metropolitan Lima. Housing demand rises at a rate of 100,000 units per year. However, only between 20,000 and 25,000 homes are being built annually, and most of these are destined for middle-upper and upper social segments of the population, with the result that the middle and lower segments (where there are most unsatisfied needs) are left without the option of a home that meets minimum standards of quality and habitability.

Peru currently lacks a housing policy. Attempts have so far proved unsuccessful to design an integrated strategy that regards access to housing as a fundamental right and stimulates construction of homes for all segments of the population. For many years, the state funneled resources toward individual homebuilders and construction companies by means of subsidies and development loans that created fiscal problems and serious imbalances in the housing market. For example, for a long time interest rates on loans were pegged below inflation (which resulted in negative real interest rates) and during the hyperinflationary period at the end of the 1980s the debts owed to the Central Mortgage Bank (Banco Central Hipotecario) were “liquidated”. In contrast, during the 1990s housing construction was approached as a purely economic activity fundamentally dictated by market forces. Although this approach was coupled with measures that supported do-it-yourself home construction in deprived sectors, in practice, many middle and low-income families were sidelined.

During the first two decades of the 21st century housing policy should aim to eliminate the accumulated housing shortage, ensure a housing supply that covers the annual increment in demand in all socioeconomic sectors and regions, and meets unsatisfied basic needs in this area. To achieve this, it will be necessary for there to be coordination between the state, on one hand, and the private sector, community-based organizations, housing associations, and individual initiatives, on the other. The state should desist from direct construction of housing projects and focus on financing demand and stimulating supply. At the same time, it will remain necessary to continue supporting do-it-yourself home construction – the only option available to low-income families – with materials, loans, technical assistance, and by simplifying formal procedures.

Government agencies have at their disposal several policy instruments that serve these purposes. Among them are measures to strengthen the legal framework and consolidate property rights on lands and homes, support for mortgage loans, and direct housing subsidies.

**TABLE 4.5**

**Housing characteristics and services**

(1997)

<table>
<thead>
<tr>
<th>Flooring materials</th>
<th>Percentage</th>
</tr>
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<tr>
<td>Cement</td>
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<td>Earth</td>
<td>41.7</td>
</tr>
<tr>
<td>Tiles</td>
<td>6.3</td>
</tr>
<tr>
<td>Other (parquet, linoleum)</td>
<td>13.8</td>
</tr>
<tr>
<td>Wall materials</td>
<td></td>
</tr>
<tr>
<td>Bricks</td>
<td>43.6</td>
</tr>
<tr>
<td>Adobe</td>
<td>40.1</td>
</tr>
<tr>
<td>Wood</td>
<td>8.6</td>
</tr>
<tr>
<td>Other (wattle-and-daub, mud, rushes)</td>
<td>9.7</td>
</tr>
<tr>
<td>Roofing materials</td>
<td></td>
</tr>
<tr>
<td>Concrete</td>
<td>29.7</td>
</tr>
<tr>
<td>Corrugated sheets</td>
<td>31.0</td>
</tr>
<tr>
<td>Rushes</td>
<td>10.8</td>
</tr>
<tr>
<td>Tiles</td>
<td>16.4</td>
</tr>
<tr>
<td>Other (straw, wood)</td>
<td>12.1</td>
</tr>
<tr>
<td>Water supply</td>
<td></td>
</tr>
<tr>
<td>Domestic connection</td>
<td>69.0</td>
</tr>
<tr>
<td>River, canal, spring</td>
<td>12.1</td>
</tr>
<tr>
<td>Well</td>
<td>5.7</td>
</tr>
<tr>
<td>Other (in building, water truck, trough)</td>
<td>13.2</td>
</tr>
<tr>
<td>Electricity</td>
<td></td>
</tr>
<tr>
<td>With</td>
<td>69.6</td>
</tr>
<tr>
<td>Without</td>
<td>30.4</td>
</tr>
<tr>
<td>Sanitation service</td>
<td></td>
</tr>
<tr>
<td>Public system</td>
<td>60.0</td>
</tr>
<tr>
<td>None</td>
<td>18.0</td>
</tr>
<tr>
<td>Blind well</td>
<td>16.9</td>
</tr>
<tr>
<td>Other (septic tank, drainage ditch, canal)</td>
<td>5.1</td>
</tr>
</tbody>
</table>

wealth, and own an asset that can be used to secure mortgage loans.

In the mid-1990s a housing program was launched by the Property Formalization Committee (or COFOPRI in its Spanish initials), an agency of the Ministry of Transport, Housing and Construction. Despite the enthusiasm of some of its officials, this committee did not function adequately, due to lack of coordination with local government, absence of land survey records, and the marked political bias with which it operated.

Furthermore, excessive regulation pushed up the cost of homes, not so much because of the strictness of its application, but because it induced corruption. It is essential to establish straightforward and easily understood standards on land use, lot size, density restrictions, and construction characteristics. Housing construction codes should have flexible standards, be inexpensive to administer, and allow rapid compliance, which would reduce expenses. A first step is to conduct a review of the regulations in place, in order to evaluate their pertinence and their impact on the cost of construction. It is also vital to reduce the cost of homebuilding by encouraging competition among construction firms, which will require the formal registration of the large number of firms that operate in the parallel economy.

In a country where earthquakes and other natural disasters are common it is particularly important to establish a set of minimum standards on location, design, and construction quality. For this, information must be disseminated on the conditions that an earthquake-resistant home must meet, the inadvisability of constructing homes in places prone to periodic landslides and floods, and the need to adopt safety measures with respect to electrical installations, among other disaster prevention aspects.

**Financing and mortgage loans**

It is indispensable to develop a system for financing home construction and acquisition that grants loans — in line with the incumbent levels and repayment capacity of borrowers — under reasonable and accessible conditions as regards repayment term, interest rates, and collateral. For such a system to function well it is necessary to have security of land ownership, the possibility to foreclose on mortgages, and measures that encourage the entry to the market of new programs and financial entities that provide housing mortgages. In particular, a secondary mortgage market should be created to inject more resources into this sector and to reduce risk through securitization of mortgage loans. Although this market should function with private sector resources, initially the state could provide guarantees to that end.

In spite of a number of recent government initiatives, such as the **Minvivienda** program (Box 4.10), it is highly unlikely that in the coming years these will be able to tackle the current and foreseeable housing shortage. These initiatives should be shored up with mortgage financing mechanisms that target the middle and middle-lower classes, whose incomes, on one hand, are too high to qualify for subsidy programs (such as the Materials Bank or **Banco de Materiales**), and, on the other, too low to meet the necessary repayment capacity requirements for loans from commercial banks. For example, it would be possible to use the accumulated resources of Length of Service Compensation funds (or CTS in its Spanish initials) as collateral for mortgage loans and to create a system of hire-purchase.

**Subsidies and infrastructure development services**

For the vast majority of Peruvians living in poverty it is practically impossible to become a homeowner solely on the strength of personal effort or through a home mortgage provided by established banking mechanisms. In such cases state subsidies are warranted for homebuilding or home buying. These subsidies should be included in the national budget and administered in a careful and transparent manner by an autonomous agency (that must operate under clearly defined loan application assessment criteria). Such an agency should be jointly supervised by representatives of the state, the private sector and civil society organizations. This system could function through a variety of mechanisms, such as subsidies for lowering interest rates and securing loans extended to lower-middle income families, appropriations for paying the initial installment on a basic housing unit, and habilitation and conveyance of lots fitted out with basic services.

Another system is loans of materials for assisting do-it-yourself home construction, which is the most common mechanism used by low-income sectors to build homes. The **Banco de Materiales**, which was set up by the government, is currently performing this function and could be extended into a large-scale program open to the whole population. In addition, it is important to improve housing infrastructure in slums and shantytowns, which will require coordinating the activities of the agencies and companies responsible for providing that infrastructure (roads, sewerage, water, drains, and electricity).
Targeting efforts and elimination of endemic poverty

One of the main lessons of poverty reduction in Latin America is the need to adopt policies aimed at specific target groups, since blanket policies that offer standard types of assistance do not benefit the poorest and the most deprived.

For much of the 1990s anti-poverty programs sought to concentrate efforts on the group identified as poor, who were allocated, supposedly on a temporary basis, additional resources on top of those channeled by permanent social programs. Bearing in mind that almost half the Peruvian population lives in poverty (Box 4.11) it is clear that policies aimed at a group of that magnitude are not exactly “targeted.” For that reason it is important for poverty reduction programs to establish criteria for defining who requires special attention and what measures can help them to break out of this plight, in which many people see their opportunities for full development as human beings threatened.

In order really to benefit those who most need assistance, targeted poverty reduction efforts must be aimed at the sectors of the population worst affected by the various forms of exclusion (Box 4.1). The people in greatest need of assistance are those who live in conditions of endemic poverty (Box 4.12) and suffer the combined effects of economic, political, and social exclusion. Endemic poverty is common in the more depressed rural areas of the highlands and jungle and has a strong cultural dimension that merits special attention.

Endemic poverty has a variety of causes that are related, among other aspects, to economic development models, power relations between the different sectors of society, and social policies. In order to eradicate endemic poverty it is necessary to adopt integrated economic, social, environmental, and infrastructure development measures that must be designed and put into practice at the regional and local level, in order to respond to the priorities defined by the actual beneficiaries. Local development is crucial for overcoming endemic poverty, among other reasons because of the serious limitations of centrally managed social programs. However, to switch from a scheme such as the prevailing one to another that addresses the priorities of those who endure endemic poverty is a process that will take time.

Eradicating endemic poverty requires a long-term program lasting approximately 20 years designed to eliminate the different forms of exclusion whose combined effect has left one-sixth of the Peruvian population in a critical situation. Apart from economic

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**Poverty reduction**

The second component of the strategic direction on integration, equity and social justice refers to poverty reduction. Half the Peruvian population lives in poverty and has endured that plight throughout the 1990s (Figures 4.1, 4.2, 4.3 and Box 4.11). However, even within this enormous sector it is possible to identify groups, which throughout the country’s history have had much greater difficulty than others in gaining access to a minimum range of goods and services, in participating actively in national affairs, and, generally speaking, in designing and implementing life plans. On the grounds of the most basic social justice, those Peruvians who have been persistently excluded urgently require the support and solidarity of the rest of society, in order to access living conditions that are compatible with basic standards of human dignity.

The most effective way of helping a person to break out of poverty is to offer them productive and stable employment, quality basic social services, and the opportunity to voice their demands to those who have the duty to satisfy them. However, it is very difficult to ensure that these conditions are met through social policies that target the entire population or even through those aimed at helping the poor. The poorest of the poor require specific, targeted measures that must be sustained for at least two decades.

**Box 4.10**

**The Mivivienda Program**

The Mivivienda Program is a government scheme designed to help would-be homebuyers from a sector of the middle class with insufficient income to qualify for a housing mortgage. The idea is to implement the program by creating private financing mechanisms, under which the state secures the loan by issuing a guaranty. Mivivienda proposes to raise around S/ 1.6 billion to be channeled to borrowers by private banks in various parts of the country. The program plans, over a four-year period, to build 50,000 homes, whose value would be between US$10,000 and US$30,000. Under the Mivivienda scheme homebuyers put up an initial installment of 10% of the value of the property, with Mivivienda providing up to 30%, and the bank financing the remaining 60%.

While programs of this type are valuable examples of cooperation between the state and the private sector, only a relatively small segment of the population with housing shortage problems benefits from the scheme. Although Mivivienda could help to construct some 12,500 homes in its first year, the housing shortage is rising at a rate of 100,000 homes per year.

Although poverty reduction is a core aspect of any social policy, there is no single method of defining poverty. The so-called "poverty lines" method defines as poor those who are unable to meet the cost of a basic basket of consumption, which includes food and other goods and services. The extremely poor are those who cannot afford a basic basket that only covers minimum nutritional requirements. By those definitions, approximately half the Peruvian population (more than 12 million people) is poor and around one in seven is extremely poor.

Another method is that of "basic needs", which takes account of additional facets of poverty, such as deficiencies in the areas of education, housing, sanitation, income, and employment opportunities. In 1997, 46% of households had at least one unsatisfied basic need. This method is frequently used in conjunction with the poverty lines method in order to compensate for some of the disadvantages associated with the latter; the combined use of these methods is known as the integrated method.

Poverty can also be defined according to the more comprehensive concepts of development being adopted at the international level. In recent years the United Nations Development Program (UNDP) has used the concept of human poverty, understood as a deprivation of basic development options and opportunities. The human development index (HDI) can be regarded as an indicator of poverty under the above definition and takes into account life expectancy, education, and income. Peru is a country with an intermediate HDI, measured by global standards. However, its HDI is one of the lowest in Latin America and a sizable proportion of the population survives in conditions comparable to those found in the poorest African and Asian countries. According to a 1997 survey, 16.4% of the Peruvian population (more than 3.5 million people) are in the low HDI category.

The realization has been reached in recent years that marked inequality in income distribution, a persistent characteristic of Peruvian society, is a factor that hinders equitable human development and poverty reduction, and reflects various factors of social and economic exclusion. Recent studies assert that even when the conditions for economic growth exist, poverty may continue growing if income inequality is particularly high.

The Gini index, which measures deviation of income distribution from a perfectly equitable distribution line, shows a deviation factor of 44.9 for Peru, which is high compared to other developing countries but similar to neighboring countries such as Ecuador and Bolivia. There are notable disparities among the different income quintiles: the bottom fifth only receives 4.9% of total income, whereas the top fifth receives more than half. The top 10% alone receives close to one-third of total income.

Another significant characteristic of poverty in Peru is that it has clear geographic and cultural dimensions. The vast majority of poor people live in the highlands and jungle, particularly in rural areas. In 1996 more than half of the highland and jungle population lived in poverty, compared to less than 40% in Metropolitan Lima. In turn, 65.3% of the rural population is poor, compared to 41.9% in urban areas. Regional disparities in terms of extreme poverty are also quite marked: more than one-third of the inhabitants of the rural highlands are extremely poor, while in Metropolitan Lima that figure is less than 5%. By the same token, 1991 figures showed that 62% of the Quechua-speaking population and 86% of Aymara speakers were poor, while 42% of Spanish speakers found themselves in that situation, which reflects the cultural dimensions of poverty.

According to the poverty line method, which measures income or consumption, the overall trend during the 1990s was slightly downward in poverty as a whole (although in absolute terms there has been almost no change) with a more significant drop in the number of extreme poor. After the economic adjustment program initiated in 1990, which made more people poor, between 1991 and 1997 the percentage of Peruvians living in poverty would appear to have declined from 57% to 51%, and those living in extreme poverty from 27% to 15%. This downturn was more pronounced between 1991 and 1994 than between 1994 and 1997, in spite of the fact that in the latter period the government increased spending aimed at reducing poverty. If we compare the poverty situation at present with that of the mid-1980s (38% in poverty and 15% in extreme poverty in 1985-86) it is clear that as yet there has been no progress from the living standards recorded prior to the economic and social crisis that struck Peru at the end of the 1980s.

Source: INEI, Cuerdo.
initiatives, provision of social services, environmental protection, and broadening physical infrastructure, this program must also cover other aspects, such as improving access to the justice system, promotion of citizen participation, restoration of the cultural and linguistic heritage, and recovery of traditional learning and technologies.

Lessons in poverty reduction

In designing and implementing a program to eliminate endemic poverty it is important to learn from recent experience in order to overcome the current shortcomings. First it is necessary to ensure the sustainability of anti-poverty measures, especially in the case of programs that receive state support and which are sometimes carried out with external funding. This is obvious in the case of food assistance (community kitchens, school breakfast, Glass of Milk program), which can only operate provided that public funding is available and are not designed to continue without that supposedly temporary support from the state. Another case in point is that of small infrastructure projects (water and sewerage, rural roads, irrigation canals, schools, medical posts), which, once completed, require ongoing maintenance. Similarly, programs on productive activities (fish farms, handcrafts, small industry, agriculture) require a minimum level of individual or collective business capacity in order to continue once the project concludes and government financing is withdrawn.

In most cases no measures are adopted to guarantee maintenance of infrastructure work and continuity of productive activities. In the case of small infrastructure projects built with funds allocated to poverty reduction programs, it is necessary to promote the active participation of the beneficiaries and to secure the support of qualified technical personnel. In the case of productive activities, it is necessary to have technical assistance, training in aspects of production and management, marketing assistance, and access to financing. In turn, this also demands coordination with other public, private, and civil society institutions, since these are matters that lie outside the scope of action of the institutions directly involved in poverty reduction.

BOX 4.12

Dimensions of exclusion, types of poverty, and future generations

Exclusion, in its economic, social, and political dimensions, can be linked to three different types of poverty in Peru (Box 4.1). Endemic poverty, which mainly affects the inhabitants of depressed rural areas, involves all three dimensions of exclusion. People in this category have very few employment opportunities, nonexistent or very poor-quality social services, and no channels for effective political participation as citizens. Generally, neither do they have fluid and continuous access to transportation and the mass media.

Chronic poverty principally strikes residents of peri-urban areas. This type of poverty is connected with both economic exclusion—owing to the enormous obstacles that prevent people in this category from gaining access to the formal labor market—and social exclusion, given the low quality of the scant social services they receive. The chronically poor are not affected by political exclusion since they have access to the mass media and other mechanisms for making themselves heard—neighborhood organizations, trade unions, religious groups, non-governmental organizations, even street protest. For that reason they are frequently “courted” by the political authorities, particularly at election time.

Finally, the short-term poor—mainly urban residents—suffer the effects of economic exclusion, but not those of social and political exclusion to the same degree as the endemic and chronic poverty populations. Their poverty is the result of economic recession that limits their employment opportunities and significantly reduces their income. For this reason they are the first to benefit from economic growth and stability.

Exclusion in Peru does not end with the three dimensions we have mentioned, namely, economic, social, and political. It is also vital to take into consideration the exclusion of future generations, which affects young people, children, and the unborn. Here, the aim is to prevent exclusion and poverty from becoming enduring conditions. In order to avoid this, it is necessary to tackle such problems as environmental degradation, violence, and lack of capacity to generate and use scientific and technological expertise.

It is also essential to get away from the hand-out approach of food aid programs. Under this approach programs import large quantities of food that are distributed free of charge, thereby squandering the opportunity to stimulate local production. The effectiveness of programs of this type is also questionable, inasmuch as, due to design and implementation errors, they fail adequately to help those most in need, in particular children under five in rural areas. A broader, medium-term perspective is needed that combines this type of assistance with development of food production in the framework of a nationwide food security strategy. It is also necessary gradually to shift the focus to other beneficiaries in order to target these programs at the most vulnerable groups.

Programs on financial support for productive activities should be combined with technical assistance programs. This is particularly important in the case of institutions like the National Social Development and Compensation Fund (or FONCODES in its Spanish initials) (Box 4.13), which has substantially increased the support it provides for infrastructure projects and productive activities in the more depressed areas of the country, but which mainly confines its operations to providing financing. Although it is neither possible nor desirable to transform these institutions into extension agencies, it is necessary to design strategies for implementing activities in cooperation with other public, private, academic, professional and non-profit institutions, to ensure that, in addition to financing and infrastructure works, beneficiaries also receive technical assistance for guaranteeing the success and sustainability of projects. In turn, this requires institutions involved in social and poverty reduction programs to be more open-minded and transparent toward citizen participation.

**Strengthening the institutional framework**

Success in tackling a complex as endemic poverty depends to a large extent on the institutional capacity of public institutions to work together and to integrate their policies and activities. To do so requires improving coordination mechanisms in all sectors of government administration, as well as ensuring that the authorities have an open and receptive mind to local initiatives and requirements. Strengthening the institutional framework will make it possible to coordinate interventions for providing basic social services and jobs and to resolve conflicts.

One starting point for reducing endemic poverty is to consolidate and articulate programs like the Targeted Strategy on Poverty Reduction 1996-2000 (Estrategia Focalizada de la Lucha Contra la Pobreza). This program constructs basic infrastructure projects (like classrooms and medical posts) in the most depressed parts of the country. Although this is a very important area, it is only one of many fronts on which to tackle the exclusion of the most poverty-stricken groups. The results of programs such as this depend in great measure on the efforts of highly centralized bodies like the Ministry of the Presidency and the Ministry for the Advancement of Women and Human Development, which do not coordinate with other ministries directly responsible for these areas.

**BOX 4.13**

**A valuable experience: Foncodes 1995-1998**

Unlike other social programs, Foncodes mainly acts as a financial intermediary for local projects. It conveys to communities funds that originate both from the Treasury and from loans and grants. Between 1995 and 1998 it set up a project evaluation, follow-up, and monitoring system based on the demands expressed by local populations during field visits both at the start of projects and during implementation. Foncodes has identified target poverty areas, particularly communities of between 200 and 2,000 people. Its projects cover different areas, such as support for basic social services (health, nutrition, sanitation, education) roads, electrification, irrigation systems, community support, and employment generation.

Foncodes' activities are significant because of the high level of interaction with the local population and for the fact that projects are placed under the direction of an implementing team with independent decision-making capacity. It is to this implementing team that Foncodes transfers the funds for carrying out projects. The implementing team is also responsible for ensuring the continued operation and maintenance of works after the conclusion of the project, which can involve private entities.

An implementing team is composed of four persons who represent the community: president, treasurer, secretary, and auditor. These officials, like the priority project, are selected by an assembly composed of at least one-third of the adult population of the community. They undertake the procedures for securing funding and for ensuring the implementation, operation, and accountability of the project. The implementing team also receives technical and administrative advisory services from a resident inspector, who is also in charge of works execution and whose activities are supervised by Foncodes.

In addition to the activities of the implementing team, the community provides part of the unskilled labor for infrastructure projects and all the labor for productive projects. This involvement ensures that the projects carried out really are what the community needs.

Promotion of local and regional development

Promoting institution building and social development in poor rural areas will be key for defeating endemic poverty. Among other initiatives, this entails strengthening care networks that are formed around health and education services; providing financial assistance and training for municipalities and peasant communities in areas where this kind of poverty exists; and strengthening small producers' organizations in order to help them consolidate market position. The main objectives must be to foster communal activities designed to enhance people's well-being, and to strengthen local government and improve their relations with civil society organizations. These activities must be supplemented with measures to strengthen food security in a sustainable manner – bearing in mind that food producers represent a large proportion of the population living in endemic poverty – as well as providing support to small producers with training programs, access to credit, and technological extension in order to raise the value-added of the food and raw materials they produce.

A useful way to coordinate activities among different public, private, and community organizations is to design local development plans that can later be articulated at the regional level. In this way, communities can put forward their needs and institutions can funnel program and project funds in a decentralized manner (Chapter 7). Another means of fostering local development is to target pilot job-creation and basic social service provision programs at areas of extreme poverty where local outreach workers can be recruited and provided with training and technical and administrative support using telecommunications and modern information systems. A scheme of this type can improve the living standards of the community and provide employment and job training.

Employment generation and broadening access to goods and services

The third and final component of the strategic direction on integration, equity, and social justice is employment generation. During the last decade the vast majority of Peruvians have not had the opportunity of good and stable jobs. Given the magnitude of the unemployment and underemployment problems – which affect two-thirds of the Peruvian labor force – it will be necessary to explore a wide range of options and initiatives.

In a context of rapid demographic growth, the modern sectors of the economy have been incapable of giving employment to the swelling labor force. This situation has compelled many people to look for ways to make a living in the parallel economy, principally as independent workers in low-productivity jobs that, in many cases, barely provide them enough to survive. The emergence of these low-quality jobs generally reflects a need to survive, even and at the cost of self-exploitation, rather than entrepreneurial drive. Accordingly, an urgent task is to raise the quality of these jobs.

Current trends indicate that in the next two decades the productive sectors of the formal economy will have difficulty providing jobs for the unemployed, underemployed, and new members of the labor force. Ensuring positive results in this area requires innovative measures and an alternative approach to the employment issue. Moreover, changes in population size and structure – resulting in an increase in people of working age – and globalization (Chapter 2) will make it difficult to achieve full employment by means of traditional policies.

The notion that people primarily access basic goods and services through income from stable and formal employment has prevailed since the early twentieth century. However, in recent decades the reality for most of the young working-age population in Peru has been quite different. Labor instability is a feature of the new globalized economic and financial climate. A person is expected to progress through a variety of positions, while the continual enhancement of professional qualifications is now a prerequisite for success in the labor market. It is very important to coordinate employment policies with those of social services so that the quality of human resources in Peru might gradually adapt to this new situation.

At the beginning of the 21st century Peru faces tough employment challenges. The labor market will have to absorb annually a still-rising number of new workers (see graphs 4.6 and 4.7) and, at the same time, tackle the problems of widespread unemployment and underemployment. This means, it will be necessary annually to create as many as 300,000 jobs in the short and medium term. Further, to make the labor force more competitive in a globalized economy, labor productivity will have to improve. All this leads to the conclusion that to solve the employment problem it will not be sufficient to create new jobs in the modern and formal sectors of the economy alone. It will be necessary also to adopt a series of complementary measures designed to raise employment quality for the self-employed and to ensure access to goods and services for the whole population.
The present demographic transition process in Peru demands that the government adopt a dynamic approach that distinguishes between generational employment problems, particularly as regards training needs (Box 4.14). The short- and medium-term problems associated with the annual absorption of some 300,000 people of working age are symptoms of the current demographic transition phase of lower child mortality and a high-to-moderate fertility rate. In the long term, these problems will have to be addressed in a period of demographic stabilization with a low fertility rate (2 to 2.5 live births per woman) and a lower proportion of young people annually joining the labor market.

Over the next two decades, the increase in the working-age population will impact on labor supply and training needs (Figure 4.6). This demographic process is a potential opportunity for the country, since, with more people working, there will be, on average, fewer dependents: this may have a favorable impact on savings rates and spending levels that generate increased economic demand, among other factors. However, this advantage could become a cause of frustration if a sufficient number of well-paid jobs cannot be created to absorb this larger proportion of working-age people.

At the beginning of the 21st century the Peruvian labor force numbers nearly ten million, which includes trained workers who are either employed or seeking employment. The size of the labor force has tripled in the last half-century (Figure 4.8) and what might be termed the potential labor force (the population aged 15 to 64) totaled 14 million at the end of the 1990s (approximately 60% of the total population). In 2000-2005 this labor force will grow at a rate of around 380,000 people per year; that rate will drop to 368,000 in 2005-2010 and, as a result, by the last year of that period will have risen to 66% of the total population. This increase will affect prospects for closing the gap between labor supply and demand.

These trends mean that the demographic dependence ratio – defined as the ratio of the total number of people under 15 and over 65 to the number of people aged 15 to 64 – will track downward over the coming years. This ratio was 83% in 1981, 64% in 1998, and seems likely to drop to 53% by 2010. All this indicates that while the supply of people of working age will continue to rise, those with jobs will for a considerable time have dependents, which constitutes an opportunity to boost internal savings.

The attempt should not be made to tackle the employment problem by simply intensifying labor market flexibility, which, to a great extent, is what happened in the 1990s. At all events, it is necessary to prevent labor conditions from deteriorating any further. Increased flexibility helps to generate lower-quality jobs under short-term contracts, unstable employment conditions, and low wages. Although workers should help to design measures for reducing unemployment, the state has the duty to assist workers by providing training – particularly for young people – and by encouraging the private sector to employ training program graduates. There is ample margin for collaboration between the state, private sector, and civil society to provide training for workers.

By means of a coordinated effort different channels can be explored for accessing goods and basic services through jobs, and guidelines can be offered to the state to support productive employment. Generally speaking it is up to the state to adopt

**FIGURE 4.6**

![Annual increase of population aged 15 to 64 years (1998-2010)](image)


**FIGURE 4.7**

![Percentage of population aged 15 to 64 years (1970-2010)](image)

*Source: Cuadra S.A.*
Each generation has in common, not only an array of health, education, and nutrition needs, but also a set of generational expectations shaped by the economic, political, and social climate in which it grows up. In broad terms, and confining ourselves mainly to urban areas, in Peru there are three identifiable generations with different expectations as regards employment and social services.

The first generation is composed of those who started working during the 1950s, 1960s, and the mid-1970s and grew up in an environment of economic expansion, financial stability, urban migration, import substitution policies, and progress in education and health. Generally speaking, these people regard having a stable job as a right that enables them to earn a wage with which to access goods and services. At the same time they see the state as the main provider of social services.

The second generational group is the one that joined the labor force at the end of the 1970s, during the economic recession of the 1980s, and part of the 1990s. This group has known economic, political, and social instability, rapid urban growth, the foreign debt crisis, deteriorating social conditions, and structural adjustment programs that reduced the role of the state in the Latin American economies and societies. Many members of this generation will never know what it is to have a stable job and assume initiatives for improving the quality of education and health, which boosts productivity and incomes. The state should also encourage a productive structure table to generate more quality jobs, as well as promote the formalization of businesses in the parallel economy. At the same time, macroeconomic and sectoral policies and labor laws have a significant impact on employment generation.

Having abolished job stability measures in the 1990s, it falls to the State to foster dialogue with trade unions and private sector organizations, in order to define, restore, and guarantee a set of basic rights and labor standards. It will be necessary to create mechanisms for disseminating information on labor supply and demand both to companies and to jobseekers. In addition, government temporary employment programs can be important in an environment of extreme poverty.

One issue that deserves particular attention is the relatively low productivity of the Peruvian labor force, a problem intimately associated with issues such as education, health, and nutrition. In all sectors of the economy, human resources not only should be brought up to the same level as other Latin American countries, but also should constantly improve in order to be able to compete in a globalized world. Only then will it be possible to attract more foreign investment and improve incomes by facilitating participation in higher-value adding activities. Matching human resources to the needs of a competitive international economy requires joint coordinated action between those responsible for providing basic social services (especially education) and private business.

At the start of the 21st century, and from a broader perspective, there are four main areas in which the state can support productive employment: by stimulating the formal productive sectors with most employment generation potential; by improving employment quality in the parallel economy and the self-employed sector; by adopting innovative employment generation measures; and by ensuring access to goods and basic services.
Employment generation in the formal productive sectors

Although investment has risen substantially in recent years, it has failed to create enough jobs to improve the employment situation. According to the Ministry of Labor and Social Advancement, in the 1990s only 4.3 jobs were created for every US$100,000 invested, despite the fact that sectors like commerce and agriculture generate 30 and 15 jobs, respectively, for that amount.

A large part of foreign investment has targeted non labor-intensive sectors, such as mining, which generates 1.2 jobs for every US$100,000, and the electricity, gas, and water sectors that only create 0.3 jobs for that sum. Even taking account of the

Unemployment, which refers to jobless people aged 14 and over who are seeking employment, has remained at around 8% in recent years. The worst affected subgroups are women and, in particular, young people aged 14 to 24.

The magnitude of underemployment provides an even better indication of the difficulties that Peruvians face in order to make a living. Underemployment refers to those who make less than half of what it costs to buy a basic basket of consumption ("invisible underemployment" or underemployment measured by income) and those who, against their will, work less than a 35-hour week ("visible underemployment"). In mid-1998 urban underemployment was at 42%; in recent years it has remained near this figure, with a larger component of invisible underemployment (around 25% of the total) than of visible underemployment. It should be mentioned that invisible underemployment descended from approximately 75% of the labor force to the figures mentioned here, due to a statistical readjustment in the way underemployment indicators were calculated in 1996-1997.

Peru's large parallel economy makes it problematic to use internationally accepted employment indicators. For this reason the relatively low unemployment figures are at odds with Peruvians' perception of the situation. Furthermore, the characteristics of the labor market make it difficult accurately to define the labor force on which the above calculations are based. However, we can say for certain that at least half - and perhaps as many as two-thirds - of the working-age population has problems finding a decent job and has not seen significant improvements in many years.

Given the absence of information for the country as a whole, it should be mentioned that during the 1990s unemployment in Metropolitan Lima underwent no significant change, while other indicators reveal a decline in employment conditions for the rest of the country. Although in recent years the government has not actively used the minimum wage as a tool to maintain incomes at a certain level, it is worth pointing out that the minimum wage in 1995 (132 soles) had the equivalent purchasing power of only around 15% of the 1980 minimum wage. Also while the minimum wage diminished by 35% in real terms between 1990 and 1996, real industrial wages rose by 3.5% per year during that period, yet in 1996 represented only 42% of the 1980 wage.

In spite of the sustained economic growth and labor flexibility measures of the 1990s, there was no clear improvement in employment during that period. Although new jobs have been created, this has mainly occurred in the parallel economy and the services sector. These trends indicate decreasing job quality, due to comparatively low wages and precarious labor conditions (particularly in the parallel economy). Decreasing job quality is also visible in the part-time jobs created by labor cooperatives and subcontractors, which frequently provide workers to the public and private sectors, offering low wages, very short-term contracts, and no welfare benefits. In sum, recent trends show that the quality of new jobs deserves particular attention.
large number of jobs indirectly created by hefty investment in areas like mining, that number pales by comparison with the number of jobs that investment in other sectors could create. In the extreme case of a mining project, an investment of US$2,500 million creates 1,900 direct, permanent jobs. Assuming that the number of indirect jobs raises the figure to 10,000, each job will have required an investment of US$250,000.

Although it is the private sector that has the capacity to generate new and better jobs, the government should play an active supporting role by fostering private investment and productivity, and by improving the legal framework in sectors with potential to generate quality employment. These sectors are – apart from small and micro-business – agriculture (in particular, since it employs more than one-quarter of the labor force), tourism, construction, manufacturing, and modern services, in which the role that exports can play should be underscored. A new economic growth model should target agriculture and tourism especially, given their employment generation potential, closely followed by the construction and manufacturing industries, and, at the same time, take into account the potential of the commerce sector.

**Improving employment quality in the parallel economy and self-employed sectors**

A large portion of the Peruvian population works in the parallel economy in jobs characterized by low wages, instability, and absence of welfare benefits. In 1996, 58% of non-agricultural workers in Metropolitan Lima were employed in this sector (which includes self-employed workers and small businesses), while only 42% were employed in the formal sector.

In addition, according to official sources, in 1996 only 48% of workers in urban areas were on a salary, while 40% were self-employed. Also, three out of five of these urban workers worked in micro-businesses, mainly in the commerce and services sectors, which, owing to the limited qualifications of the work force, record low productivity levels. Finally, one-third of salaried employees do not have an employment contract.

While in the formal economy progress is slow in terms of creation of new, stable and well-paid jobs, in the parallel economy Peruvians continually find ways to ensure their survival. These activities could be strengthened in qualitative terms with support from the state, private sector, and civil society organizations, gradually be brought into the formal economy, and transformed into sustainable productive and profitable activities.

Faced with a lack of traditional jobs for several decades, Peruvians have made a living by turning self-employed and setting up micro-businesses. Although there have been cases of activities in the parallel economy that have enjoyed great success, the majority of these activities only afford a subsistence living and the huge segments of the population involved in them are forced to overwork without making a profit or, therefore, being able to save or invest. While 98% of companies in Peru are in the small and micro-business category, most belong to the parallel economy and, therefore, do not pay taxes. The same is true of the self-employed. Small and micro-businesses, with their low levels of productivity and competitiveness, provide jobs for almost 50% of the labor force and, according to the Ministry of Labor, account for more than three-quarters of urban employment in the country. This large sector of the population, which generates its own jobs, requires technical, financial, and administrative assistance, as well as credit, in order to make their precarious productive activities economically viable and, eventually, to formalize them.

Formalizing micro-business and parallel economic activities, in the broad rather than the legal sense of the term, would have a positive effect on the jobs, incomes, and quality of life of those involved in them. In the medium term it would also enable articulation between them and the formal produc-
tive system – for instance, through subcontracting – and generate additional fiscal revenue. For this reason, the formalization of those who suffer the effects of economic exclusion should be regarded as a "temporary public asset" for some 20 years, which would justify investment of state funds in them.

Innovations in employment generation and access to goods and services

Although measures such as those mentioned above could significantly improve the employment situation in the country, the persistently high levels of joblessness and underemployment are now beginning to be understood as a problem intimately associated with globalization and the technological changes that accompany the transition toward a global information society. Following decades of demographic transition, the current age structure and the projections for the 21st century lead to the conclusion that additional measures to those mentioned will be required to reduce the job shortage.

The instability associated with economic and financial globalization and the persistence of labor problems, even in regions like Europe and North America, lead to the assumption that in the medium and long term traditional approaches – based on the creation of jobs – will not guarantee access for the whole population to the goods and services needed to enjoy an adequate standard of life. Accordingly, it will be necessary to design complementary institutional channels to accomplish that aim. Although this is a task for society as a whole, the state has a special duty to coordinate and stimulate creative initiatives in this area.

A variety of experiences and projects show that programs designed to stimulate local development, sustainable use of natural resources, and provision of goods and basic services have great employment generation potential. In all these areas new communication and information technologies can be seized on to coordinate activities at the local level. Furthermore, it is essential to explore alternative units of exchange – other than national currency – that might provide access to goods and basic services and, at the same time, strengthen the social fabric.

The following are a number of innovative options for generating employment and broadening access to goods and services:

BOX 4.16

Provision of low-cost social services to generate employment using modern technology

Almost 30 years ago the eminent economist and university professor Ignacy Sachs suggested that it was possible to establish a welfare state in many countries, by capitalizing on the fact that the physical productivity of those who work in the provision of social services (including education, preventive medicine, child care, vaccination, nutrition programs, agricultural extension, reforestation, maintenance of small physical infrastructure projects, environmental sanitation, public hygiene, and personal services) does not depend, fundamentally, on salary levels or investment in fixed assets. However, the organization of these labor-intensive – and to some extent learning- and training-intensive – services raise problems of coordination, management, training, and administration, which, at the beginning of the 1970, required a large bureaucratic apparatus and specialized administrative personnel.

On the threshold of the 21st century, these difficulties can be overcome by using information technologies, whose costs have diminished dramatically in recent years (computers, telephones, fax, data transmission, electronic mail, video, radio, television, multimedia equipment). Nowadays we have at our disposal a broad range of equipment (hardware) and programs (software), which have revolutionized management and slashed the costs of administration, training, and data distribution and management, among others. The use of these new technologies would make it possible to broaden significantly provision of basic social services, improve their quality, and generate employment.

For this reason, and given increasing social demands and the challenges of a globalized economy, one strategic option for directly improving social conditions is to provide inexpensive and labor-intensive basic social services, by taking advantage of modern information technology and communications.

Furthermore, information technologies and communications have a fundamental role to play in improving ways of acquiring and using learning: this has a huge impact on quality of life. With the help of a recent technologies (such as electronic mail or cellular telephones) and of communication media that disseminate learning at a low cost (like radio and television) it is possible to close the learning gap both between and within countries and, therefore, to improve quality of life for poor people. These technologies are already being applied to manage development programs in rural and urban areas in several countries.

Employment programs associated with provision of basic social services, mainly targeted at jobless young people, who would be trained as promoters in order to undertake activities in education, health, nutrition, reforestation, sanitation and other areas for improving the well being, prosperity, and living conditions of their communities. These individuals would complement and strengthen the efforts of local networks that provide basic social services and would be paid a minimum wage by the state. Programs would be coordinated around local and regional development plans and would make intensive use of information technologies to support management, training, information exchange, and standardization of minimum quality levels in the services to be provided. Those who have received a higher level of training would also be able to supervise the projects of Foncodes and other public and private institutions (Box 4.16).

The promoters’ organization scheme could also be broadly applied to improve, on a small scale, the employment generation capacity of sectors such as tourism and small and micro-business. For example, a basic package of training, information, equipment, and credit could be designed for families interested in turning their homes into hostels so as to provide bed and breakfast services for low-budget tourists in rural areas. This could be of particular benefit to older people whose children have migrated to the cities. In addition, comprehensive child- hood care programs, which encompass aspects of education, health, and nutrition, could benefit from the participation of promoters that join them.

Design and implementation in a carefully selective manner of temporary employment programs that target areas of sustainable human development, such as reforestation, maintenance of road infrastructure, and provision of basic sanitation. These programs could be organized through municipalities with financial support from government agencies. In this way, service provision would be combined with income generation under programs that can be targeted at areas of greatest poverty.

Support for employment generation schemes through small businesses at the local level, particularly in rural areas, that promote the use and renewal of the community resource base. Sustainable livelihoods are well-paid, satisfactory, and meaningful activities that enable members of social groups to make use of and, at the same

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**BOX 4.17**

**Sustainable livelihoods and local employment generation**

One valuable experience with guidelines to offer on promoting development and employment generation at the local level is that of the Development Alternatives institute in India, founded by Ashok Khosla at the beginning of the 1980s. Khosla and his associates hold that current economic policies and technologies do not promote socially and environmentally sustainable livelihoods in the long term. From that point of view, the main challenge that societies face is to create a large number of sustainable livelihoods. By definition they unite people with their communities and their local and regional environment. They also have a positive impact on health, fertility, migration, and other demographic factors and, at the same time, enable more effective use of environmental and financial resources for the common good.

Development Alternatives and its commercial arm, the private firm TARA, have applied this concept in India through the large-scale introduction -under a system of franchises- of a set of activities and the productive services that they entail. Working in a market economy, by 2000 they will have managed to cement operations worth more than US$100 million. Unlike a traditional commercial firm, whose success criteria are geared only to market performance and profits, they have created successful companies that meet the basic needs of workers, consumer demands, and community aspirations, and, at the same time, help to preserve the environment.

The products developed by Development Alternatives and TARA include high-efficiency wood and coal-burning stoves, paper and cardboard-making machinery, water pumps, multi-use presses, stabilized adobe, looms and knitting machines, appliances for processing and storing food, integrated energy systems for rural villages, among others. For sustainable livelihoods to be locally accessible, multiply, and compete successfully in the market, it is necessary to put an emphasis on the sustainability of technologies, companies, and the economy.

Social currency is a halfway house between the lasting trade processes that create community economics and intangible monetarized transactions that sustain the efficiency of markets.

A community’s social fabric is built on relations of trust and reciprocity that, to a large extent, determine the quality of life of the community’s members. The recurrent and persistent nature of these relations permits the accumulation of wealth; it manifests itself through multiple formal and parallel institutions and constitutes a fundamental resource for achieving prosperity and well-being. These relations, which have a strong affective component, also help to boost self-esteem and to consolidate a sense of identity. However, these relations have a relatively limited scope of action and demand time and effort that can lead those involved in them to value differently the goods and services exchanged under those reciprocal relations.

For their part, trade relations in the market, which materialize in the form of monetary transactions, are a very efficient means to access the necessary goods and services for satisfying human needs. Although money is based on the trust deposited in the body that issues the currency that provides the means of payment, its efficiency as a trade instrument rests on the fact that it is possible to complete the transaction without the need for the interaction between buyer and seller to be extended over time. Monetarized transactions are settled on the spot, for which reason, unlike exchanging gifts and reciprocal relations, they do not help to generate or strengthen community ties.

Many experiences in different countries around the world show that social currency can fulfill social functions that a national currency cannot. In contrast to national currency and barter, social currency reflects an accord within the community and, on that basis, activates, increases, and circulates wealth. This currency is not created by a higher entity alien to the community (a central bank, for example) but by all the individuals who participate in a series of predefined transactions. Someone who receives a good or service under a social currency system is left with the obligation to convey in the future a similar good or service to another member of the group, which makes it possible gradually to construct a dense network of voluntary mutual obligations. These community transactions can be understood as part of a local cooperative economy that exists alongside the competitive economy of monetary transactions in a broader geographical context.

The variety of goods and services covered, the units for accounting outstanding mutual obligations, and the ways of settling outstanding obligations define the specific features of the social currency system. A social currency system that has been adequately designed in accordance with the local needs, culture and resources would enable improved access to the goods and services available in the community, broaden opportunities to participate in activities that the community appreciates and values, and strengthen decentralization processes by encouraging local initiatives for tackling problems.

Some of the more significant social currency experiences found in different countries include the Local Exchange Trading System (LETS), which is the most common form; a social currency system for providing health care to the elderly that has been set up in Japan; and the Commonwealth Community Herocard in Minneapolis, which formally integrates a social currency scheme with the US dollar, successfully involves the participation of private businesses, and makes use of modern information technologies.

Initiatives of this type can be coupled with decentralized training programs for the jobless that combine service with learning, such as those carried out by the National Industrial Skills Development Service (SENATI). This would be particularly relevant in the case of public sector employees dismissed as a result of institutional reforms.

Among other initiatives, promotion of sustainable livelihoods at the local level, as well as support for labor-intensive small industry and for provision of basic social services that use inexpensive modern technology and, likewise, are labor intensive, could absorb a substantial portion of the expanding labor force that is unable to find employment in modern productive sectors of the formal economy. This would pave the way for significant improvements in social conditions and in personal development prospects, as a result both of the greater job opportunities, and of the direct benefits that the provision of such services would bring to the population.

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The fundamental aim of the strategic direction on integration, equity, and social justice – that all Peruvians have the same opportunities for human development and have access to the goods and basic services necessary for leading a decent life – can only be achieved if a broader vision is adopted of the factors that determine the social conditions of the population and of the policies that impact on those conditions. The state, civil society organizations, and the private sector must pool efforts and put forward innovative solutions designed to ensure access to basic social services, generate employment, and reduce poverty.

In a context of the exclusion of large population segments, limited public resources, incorporation in a fractured global order, and demographic transition, traditional schemes for the design and implementation of social policies are insufficient. Provision of social services, poverty reduction, and efforts to tackle the employment problem require great imagination, boldness, and determination, in order to create – within two decades at most – the basic conditions for ensuring prosperity, well-being, and a quality of life for all Peruvians in keeping with the dignity of the human person.
CHAPTER FIVE

MANAGEMENT OF THE ENVIRONMENT, NATURAL RESOURCES, SCIENCE AND TECHNOLOGY
INTRODUCTION

The strategic direction on management of the environment, natural resources, science and technology is the third series of strands in the weft of the social fabric of Peru to be reconstructed in the first twenty years of the 21st century. Its components are the evolution of a new concept of the relationship between environment and development, one that will successfully bring into line the demands of economic growth and the conservation of the ecosystems which support human life; the judicious use and conservation of natural resources in such a way as to simultaneously make use of, yet preserve this storehouse of natural resources for future generations; the reduction of pollution in order to cut down on health risks, improve living conditions and protect biological resources; the design and execution of environmental policies capable of articulating many different interests and outlooks so as to achieve sustainability in the utilization of natural resources and ecosystems; and the development of capabilities for scientific research and technological innovation which will lead us to create, import, adapt, absorb and efficiently use the growing store of knowledge available around the world – as well as salvaging and improving traditional know-how.

The challenge Peru confronts is how to take advantage in a sustainable manner – without plundering or destroying – of its huge variety of ecosystems and natural resources and its extraordinary biodiversity. If we are to achieve this aim, we must build environmental considerations into each and every one of our development policies, in order to ensure that productive and social activities are carried out in harmony with protection of the environment. We must also take into account the needs of coming generations – who have noone to represent them in current decisions which will set the conditions for their future development possibilities and perhaps even for their survival. These coming generations must be guaranteed, at the very least, the same opportunities as are available to the present generation.

Ideas on the relationship of humankind and nature have been evolving throughout the course of history. Only thirty years ago, concern for environmental protection found little support in the great majority of developing countries; some considered it a form of "environmental colonialism." Yet, in the past few decades, we have become aware that it is impossible to ignore the growing impact of human activities on the environment. Now, we are conscious of the limits imposed on production and consumption by the capacity ecosystems possess for regeneration. We are also aware of the dangers inherent in the uncontrolled exploitation of natural resources, and the risks implied in overloading the capacity of the environment to absorb waste. In addition, we have learnt that protecting the environment creates new economic opportunities, helps to achieve greater equality and allows us a better use of our geographical space.

Similarly, during the past few decades, the emergence of the "information society" (Chapter 2) has changed the way in which we perceive the links between knowledge and development. The importance of science and technology is such that the capacity to generate scientific knowledge and technological innovation is now an essential precondition for progress towards prosperity and wellbeing. In the new context of the fractured global order, this capacity is fundamental for productive transformation and for productivity, for improvements in the living conditions of the population at large, and for the development of modern physical infrastructure, especially in areas such as telecommunications.

On the other hand, technological advances are continuously modifying our concept of natural resources and the environment. New technologies permit the transformation of raw materials, waste and other apparently useless materials into useful goods and services at ever-lower costs. As scientific and technological knowledge expands, the range of resources also grows. Similarly, scientific and technological research helps us arrive at a better understanding of the role played by ecosystems as a support for human activities: it also underscores the value
of environmental protection for guaranteeing the wellbeing of present and future generations.

**Environment and development: Approaches, sustainability and policies**

A first component in the strands that make up the strategic direction on management of the environment, natural resources, science and technology has to do with the relationship between environment and development, and with the way that environmental policies are designed and implemented.

**Approaches to environmental management**

Conceptions of the interaction between environment and development have evolved considerably during the last half century. Starting from two opposing positions (the frontier economy and deep ecology), other approaches have emerged: environmental protection, administration of resources and eco-development. These seek to achieve an ever-closer integration between economic, ecological, social and cultural systems. Each one of these paradigms is based on different assumptions about the biophysical environment which sustains human activity, about the behavior of individuals and society, and about the way in which human beings interact with nature. They also give rise to different concerns and place in different perspectives the questions of environmental protection and the utilization of natural resources (Box 5.1).

Thus, throughout the last century and-a-half, we have evolved from the perspective of a frontier economy, passing through a simple environmental concept and a more sophisticated idea of resource administration until we have arrived – in the past couple of decades – at the integrating approach which eco-development supplies. The perspective of “deep ecology” has not found support in Peru, or in the majority of developing countries.

The frontier economy approach considers that nature offers an infinite variety of bio-physical resources which can be used without any restriction whatsoever by human beings. It also considers that nature has an infinite capacity for absorbing waste and the by-products of productive activities and services. According to this approach, nature exists for

<table>
<thead>
<tr>
<th>Approach Dimension</th>
<th>Frontier economy</th>
<th>Environmental protection</th>
<th>Administration of resources</th>
<th>Eco-development</th>
<th>Deep ecology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominant imperative</td>
<td>Defends material prosperity and economic growth without limits or restrictions</td>
<td>Prioritizes economic growth, subject to minimal limitations of environmental protection</td>
<td>Seeks an equilibrium between economic growth and use of resources to achieve environmental sustainability</td>
<td>Proposes the joint development of humankind and nature; seeks synergies to get the best from both</td>
<td>Prioritizes nature and the environment, opposing economic growth; seeks to achieve “eco-utopia”</td>
</tr>
<tr>
<td>Relationship with humankind</td>
<td>Strongly anthropocentric</td>
<td>Strongly anthropocentric</td>
<td>Moderately anthropocentric</td>
<td>Balance between anthropocentrism and eco-centrism</td>
<td>Strongly eco-centric and bio-centric</td>
</tr>
<tr>
<td>Dominant threats</td>
<td>Hunger, poverty, disease, natural disasters</td>
<td>Harmful effects on health of pollution; threat of extinction of species</td>
<td>Degradation of resources; poverty; demographic growth; climatic change</td>
<td>Poverty; excessive consumerism; ecological uncertainty; global changes</td>
<td>Collapse of ecosystems and the biosphere; disasters caused by human beings</td>
</tr>
<tr>
<td>Principal issues</td>
<td>Open access to resources; nature as a free resource; exploitation of a limited supply of natural resources</td>
<td>Corrective and defensive measures to counteract most flagrant abuses; laws and regulations to “legalize ecology”</td>
<td>Seek greater efficiency in use of all types of resources; take account of interdependence. “Economize ecology”</td>
<td>Economic restructuring with ecological regeneration; sophisticated symbiosis between “ecologizing the economy” and human development</td>
<td>Return to nature; “equality of all living species”; symbiosis between humankind and nature</td>
</tr>
</tbody>
</table>

the benefit of humanity, to be manipulated, exploited and modified without human beings needing to feel any responsibility for protecting it. Development and progress are synonymous with continuous economic growth and an endlessly expanding consumption of goods and services. This approach was dominant in almost all the industrialized countries during the 19th century and the first half of the 20th century.

At the other extreme is the deep ecology approach, which adopts a diametrically opposed position. It argues that there is a very close interrelationship between all human beings and the ecological systems that sustain life on earth. It is based on a value system and an ethical viewpoint which, in its most extreme form, considers that all living species are inherently equal: human beings enjoy no especially privileged position. This approach also argues that growth should not be the main aim of the economy: rather it should seek the stabilization and the reduction of production and consumption. In addition, it holds that maintaining and expanding biodiversity should be a priority and an end in itself; and that there should be a trend towards the establishment of small-scale local economies which would have a minimal impact on the environment. This approach emerged strongly in the second half of the 20th century, although its roots are to be found in 19th-century Romanticism and in Eastern philosophies and religions – such as Taoism and Buddhism – as well as in more recent movements such as ecofeminism and systems ecology.

The environmental protection approach emerged as the frontier economy began to reveal its limitations. The ravages caused by water, air and soil pollution provoked a series of reactions among the inhabitants of the industrialized countries, particularly from the 1960s onwards. This gave rise to efforts to control and repair environmental damage, although with little emphasis on how to prevent such damage occurring. This approach adopts a defensive attitude in policies and in environmental management; it stresses the establishment of limits on harmful emissions with the aim of maintaining "optimum" levels of pollution, generally determined on the basis of cost-benefit studies with a short-term perspective. When these limits are not respected, penalties are applied to the polluters, who are obliged to correct the situation and repair the damage caused. Environmental impact studies are carried out after the project has been designed or during the design process: normally, they are not modified during the execution stage.

The fourth approach, that of resource administration, emerged from a series of investigations carried out in the 1970s and 1980s on the integral management of all types of capital – biophysical, financial, human, institutional, and physical infrastructure – with a long-term perspective and taking into consideration their interaction and interdependence. This approach is concerned with the administration of all types of resources, including ecosystems, with the aim of attaining sustainable development in the widest possible sense, and with reconciling economic and environmental protection objectives. Among other aims, this approach argues the necessity of introducing changes in the way national accounts are calculated, as well as in the manner that policies are formulated and decisions made on environmental issues. For example, instead of fixing limits for pollution and establishing penalties and prohibitions, it proposes the use of incentives to encourage behavior that is favorable to the environment; it also seeks preventive action to avoid damage before it happens (such as the prior approval of environmental impact studies before investment projects are embarked upon) and encourages clean technologies and productive processes.

If we are to advance towards a model of environmental management that is in harmony with the demands of eco-development, we shall have to see inspiration in biology, ecology and the science of social systems where the diverse elements which make up a development strategy are included, based on their interaction and their place in the widest context of the overall strategy.

Finally, the eco-development approach goes beyond environmental management and attempts to restructure the relationship between society and nature, transforming it into a "win-win" game in which the standard of living of human beings and the quality of the environment are both improved at the same time. This approach, which has been developed over the past couple of decades, proposes the reorganization of human activities so that they have a positive impact on the biophysical environment and strengthen the capacity for regeneration of the world’s ecosystems. If this is to come about, we must abandon the concept of the economy as a closed system, in which goods, services and money circulate, and replace it with the concept of the "biophysical economy": this takes explicit account of the flows of energy, environmental services and material resources from the biophysical ecosystems to the conventional economic system. In turn, this requires a perspective that articulates the short, medium and long term, and that modifies the policy environment in which economic agents operate: it is called "ecologizing the economy."

The attitude of Peruvian society towards its biophysical environment is often summed up in the
aphorism of Antonio Raimondi: "Peru is a beggar sitting on a bench of gold." It has wavered between the frontier economy and the environmental protection approaches, with a few, sporadic exceptions when it has adopted the resource administration approach. As we shall see, government policies, the practices of both private and state companies and the actions of civil society organizations have created a situation in which most mining, fishing, industrial, forestry, energy and hydrocarbons companies behave as if there were a limitless supply of natural and environmental resources – or as if it is sufficient to repair, often totally inadequately, the negative impact of their operations.

If we are to make appropriate use of Peru's variety of natural resources and ecosystems and great biodiversity, we must progressively adopt the approaches of resource administration and eco-development, abandoning the ways of thinking, the policies and behavior characteristic of the frontier economy and environmental protection approaches. In the next two decades, we must give wide publicity to these two approaches and inform citizens about the current environmental situation and the impact of productive and service activities.

We are not "beggars sitting on a bench of gold," with the liberty to exploit however we see fit the resources that Peru makes available to us. We are workers who live in a complex, fragile and potentially fertile blend of ecosystems, which requires our care if it is to generate prosperity and wellbeing for this generation, and if generations to come are to have the same opportunities as us.

The concept of sustainable development

In recent years, as a result of the better understanding of the impact of human activities on the environment, questions have been raised over the ways of measuring levels of development of different nations. Indicators based exclusively on economic criteria – such as gross domestic product, volume of exports or the rate of internal savings – reflect neither environmental deterioration nor the exhaustion of natural resources. Every time that soils are lost through erosion, forests are burned without being replanted, minerals are extracted without new deposits being found, or fishing exceeds levels that allow the maintenance of fish stocks, the natural resources storehouse is depleted and the foundations of future growth are undermined.

The current system of national accounting does not take into consideration the depreciation – or rather, the deprecation or destruction – of natural and environmental resources. There are environmental factors which have an important influence on the quality of life of individuals, yet which are very difficult to evaluate objectively. It is harder still to incorporate them into the national accounts. Among these factors are the preservation of the national heritage, relations between traditional communities and their biophysical environment, and the beauty of the landscape.

New ways of drawing up the national accounts have been designed so as to incorporate environmental data. The World Bank, for example, has proposed the notion of "genuine savings" as part of a system of indicators and national accounts which would take environmental factors into account.

Genuine savings measures the rate of creation or destruction of wealth within an economy; it is calculated by accounting for investment in human capital, for depreciation of productive assets, for the exhaustion of natural resources and for environmental deterioration.

Rates of genuine savings disclose whether countries are living off their store of capital, whether they are maintaining it or increasing it. Thus, even though they may have had positive rates of net financial savings, the countries of Latin America had negative "genuine savings" rates during the so-called lost decade of the 1980s. In the case of Ecuador, this rate has been zero or negative for thirty years – that is, throughout the entire period that it has been exploiting its oil reserves. For Peru, the creation of a new system of national accounts that incorporates environmental criteria is of the utmost importance: it will allow us to measure the real costs of economic growth that is based on the exploitation of our natural capital and the export of raw materials, features that have often led, throughout our history, to the deprecation of our natural resources and the deterioration of our environment.

It is important for the economy to grow, in order to raise the levels of prosperity and wellbeing of the population at large: but it is essential that growth be achieved in a sustainable manner and without undermining the foundations of future growth (Box 5.1). In many cases, economic growth and environmental protection can strengthen one another, instead of contradicting each other. For example, greater efficiency in the use of energy, recycling of materials, sustainable use of forests, integrated pest management in agriculture, and soil conservation permit the cutting of costs, the increase of production and, at the same time, allow us to reduce negative environmental impacts.
The term sustainable development was coined by the United Nations Commission on Environment and Development (the Brundtland Commission) in its 1987 report entitled "Our Common Future." A first definition of sustainability argues that the exploitation of a renewable resource is sustainable if, in each given period of time, only the increase in the total stock of the resource is consumed. The "maximum sustainable yield" is the optimum rate of exploitation of the resource which will avoid any depletion in the disposable reserves and which allow its capacity for regeneration to be maintained.

A second definition expands the ambit of application of the concept of sustainability: it extends it to a larger number of resources, and resources which are interrelated – an entire ecosystem, for example. The optimum rate of exploitation for an individual resource does not necessarily mean that other resources linked to the first can be maintained without their own stocks being reduced.

A third definition goes beyond a purely environmental perspective and seeks to integrate socio-economic and biophysical aspects. It argues that a development process is sustainable if the stock of all the assets of a society are either maintained constant or increase over time. The assets of a society include traditional capital goods (machinery, factories, roads, physical infrastructure), human capital (educational levels, scientific and technological knowledge, the skills and talents of workers) and natural or environmental capital (forests, biodiversity, land, the marine biomass, minerals, hydrocarbons, water resources, clean air).

These different assets can, to a certain degree, be interchangeable. If development is to be sustainable according to this definition, the sum total of a society's assets must be maintained or increased, even if one or other of the individual components is reduced. For example, as a non-renewable resource is exploited (such as oil or mineral deposits) the stock of that particular resource will be reduced over time – even if exploration and the discovery of new deposits can compensate for the situation and increase reserves levels. However, to the extent that part of the non-renewable resources is invested to generate another type of capital (education, research, productive capacity, roads or infrastructure), it will be possible to maintain or increase the total stock of assets that society possesses.

Social and environmental development have many objectives in common: the elimination of water pollution reduces the incidence of gastro-intestinal illnesses; reforestation avoids landslides which can affect those who live on the outskirts of communities; and the reduction in emissions of harmful gases and particles pre-empt a series of respiratory diseases. All of this helps improve quality of life. Similarly, combating extreme poverty has a positive impact on the environment: it provides new income-generating opportunities which reduce the pressure exerted by the poor on ecosystems, avoid the over-exploitation of natural resources, and allow for improvements in housing, sanitation and education.

If sustainable development – based on the approaches of resource administration and eco-development – is to be achieved, then, the first task is to identify the areas and activities where such common objectives are to be found. In this way it will be possible to propose initiatives and adopt policies which simultaneously defend economic and environmental objectives.

Explicit, implicit and resultant environmental policies

The design and implementation of environmental policies is an extremely complex process, principally because almost all productive and social activities have something to do with the environment; also because there are large numbers of government agencies, private companies and social organizations involved. There are so many inconsistencies and contradictions between environmental policies and other public policies that even the best initiatives to protect the environment are often derailed.

Private companies and other producers of goods and services are subject to a series of influences which condition their behavior: these range from the situation of the inputs market and products, through the availability of financing and access to technology, to the capacities of the workforce. Public policies on the environment or anything else are only one of many factors which affect the behavior of economic agents. The interaction between these different factors will ultimately define whether envi-
Environmental considerations are taken into account in the decision-making process and what direction the environmental behavior of companies, productive sectors and the economy as a whole will take. For this reason, it is important that environmental and other public policies be coherent, especially those which concern investment promotion and economic growth.

Explicit environmental policies aim at influencing the behavior of economic agents, by encouraging them to take decisions – on productive technologies, location of plants, operational practices and procedures, product design and utilization of inputs, among others – which are in line with the environmental policy objectives set out by the government. They are statements which make direct and explicit reference to the sustainable use of natural resources, the elimination of pollution and, in general terms, the protection of the environment. They are statements made by high-level national authorities (the President, the Prime Minister or the Congress), from sectoral public entities (ministries and autonomous institutions) and multi-sectoral agencies which are specifically concerned with environmental issues (such as the National Environmental Council, CONAM).

Public policies which have different objectives, particularly economic policies (including fiscal, financial, tax, tariffs, privatization, investment promotion, regulation of competition) have an implicit environmental policy content, in the sense that they can sway in one direction or another the decisions that determine the impact on the environment of business operations. These are what can be termed implicit environmental policies, and they interact with explicit policies – usually designed to neutralize and reduce the influence of the latter in the decisions taken by economic agents. One clear example of this problem is the granting of incentives to private investment – national or foreign. In practice, incentives exempt certain investors from requirements established by explicit environmental policies, such as approval by the competent authority of environmental impact studies before the project commences.

From this interaction between explicit and implicit environmental policies on a given sector of the economy, arises a resultant environmental policy: this expresses the real direction of public policy, quite aside from the declarations of intent which explicit environmental policies contain. If we are to determine which elements of this blend of policies will prevail, we must examine the policy instruments associated with each of them, in particular, the legal dispositions, organizational structures and operating mechanisms which they consist of. In this way, we shall be able to identify the relative importance of each instrument in the decision-making process of businessmen and anticipate their behavior in regard to the environment.

As will be seen, even though the National Environmental Code (approved by Congress in 1990) and the statements of the National Environmental Council, CONAM, suggest the existence of an explicit national policy which falls within the framework of the resource administration approach, a series of laws and legal provisions published by sectoral agencies suggest the existence of a policy which leans towards the environmental protection approach. What is more, the inconsistencies and contradictions between explicit and implicit policies – which tend to undermine environmental objectives – give rise to a resultant policy which shows a retreat on the part of Peru in terms of environmental management policies.

Indeed, as a result of the diverse factors which affect them – including the resultant environmental policy – many economic agents behave in a manner which corresponds to the frontier economy or unlimited resource supply approach; another large group behaves within the patterns of the environmental approach; and a small group of companies, most of which are foreign-owned, behaves in accordance with the resource administration approach.

This suggests that the task of aligning the objectives of environmental policy and sustainability with those of economic growth will continue to be fraught with problems in Peru. If we are to overcome the obstacles, we will have to introduce environmental considerations into economic policies, resolve the most flagrant contradictions between explicit and implicit environmental policies, and bring sectoral environmental policies into line with the multisectoral proposals of the National Environmental Council.

**NATURAL RESOURCES: POTENTIAL, USE AND CONSERVATION**

A second component of the strands that make up the strategic directions on managing the environment, natural resources, science and technology has to do with the large variety and quantity of natural resources which Peru possesses. Throughout history, these resources have been the principal link between our productive system and the international economy – a relationship which, to a great extent, has determined Peru’s economic and social structure. The abundance of natural resources has opened, and continues to open up a wide range of opportuni-
ties to achieve prosperity and wellbeing for Peruvians. Yet, to date, we have not proved capable of designing and implementing strategies and policies to ensure that these opportunities materialize.

The fact of possessing natural resources has led Peru – like many other countries in a similar situation – to adopt a development model based on the export of raw materials and primary products. The erroneous conviction that this was a model that was viable and sustainable in the long term, derived from the apparently inexhaustible availability of resources, has encouraged us to place too much faith in the generosity of nature.

Lulled by what we might term the “beggar on the bench of gold” syndrome, we exported gold and silver for centuries; then guano, oil, sugar and cotton; still later, copper, lead and zinc, until we reached the fishmeal boom of the 1960s and another gold export bonanza towards the end of the 20th century. Yet, all these years we have failed to use the income from exports to develop industries which would give them value added and thus reduce our external vulnerability. Nor did we invest in an educational system capable of responding to the demands of equity and international competition and of carrying out the economic and social transformations which, in broad terms, would have allowed us to effect substantial improvements in the standards of living of Peruvians.

Development strategies based on the export of primary products and natural resources have a series of limitations. The deterioration in the terms of trade between raw materials and manufactured products obliges countries to export ever-greater quantities of primary products in order to be able to import the same quantity of manufactured goods and products with a higher technological component (Chapter 2). The extraction of natural resources takes place in remote areas, employs few workers, is relatively unconnected with the rest of the national economy and does not create – at least, not automatically – linkages with other productive activities. In addition, when large amounts of foreign exchange earned from exports enters the country, the local currency inflates causing a negative impact on the competitiveness of other productive sectors.

These disadvantages can be overcome. The exploitation of natural resources can be transformed into the motor of national development – when and if it is seen as a component that is intimately linked with the other components of a development strategy and a balance is achieved between the knowledge, use and conservation of those same natural resources.

But perhaps the key factor is to employ the income earned from the exploitation of natural resources to finance a transformation of the productive apparatus, reduce social inequalities and achieve a better settlement of our territory. Only in this way will it be possible to embark on a self-sustaining process of accumulation of all types of capital, which would be used to overcome the limitations associated with development strategies that are based exclusively on the exploitation – often indiscriminate and depletive – of our rich stock of renewable and non-renewable resources.

All of this entails recognizing and assigning economic and social value to the vast biological and ecological diversity which Peru enjoys, and to the environmental services which this same diversity provides to our own country and to other regions of the world. At the same time, we must utilize in a more rational manner our renewable and non-renewable resources, which include forests, the biomass and resources of our ocean, rivers and lakes, as well as our land, water, mineral and energy resources.

Renewable natural resources are those which continuously and naturally regenerate themselves. For this reason – unless they are utilized at a rate faster than their capacity for regeneration or fall victim to some natural or manmade disaster – the stock of renewable resources is maintained and can be called upon indefinitely. This is the case of the Amazon forests, of Peru’s marine resources and the sources of hydro-electricity. However, if these resources are to maintain their renewable status, it is essential that public policies and exploitation techniques avert their depletion and encourage their responsible utilization.

Extraction of non-renewable resources – minerals and hydrocarbons, for example – reduces their stock in absolute terms. If they are to be rationally exploited, a certain level of proven and potential reserves must be maintained: prospecting and exploration activities to locate new deposits must, therefore, be permanently carried out. The national and international economic environment has enormous influence on the economic viability of projects for the extraction of non-renewable resources, especially when large investment sums are required. It is, therefore, necessary to design strategies for exploitation that maximize the economic benefits – for the companies involved, as well as the country – for the entire useful life of the project. In particular, variations and trends in international prices, availability and costs of financing, and technological progress will determine the most appropriate moment and timeframe for the execution of this type of project.
Environmental services

The environment is the basic support of all human societies. Every time we breathe, have a drink of water or eat, we are using its services. Oxygen, an indispensable element for human life, comes from the atmosphere which is itself the product of the interaction between human beings and, specifically, of the cumulative metabolic action of plants. The fine atmospheric balance which determines our survival depends strictly on chemical and biological cycles which are sustained thanks to the interaction between a wide variety of biological species and natural ecosystems. The composition of the atmosphere, the product of these ecological cycles, is also responsible for the climate of our planet: it determines how much solar energy is reflected or absorbed. This, in turn, affects average temperatures on earth and their variations.

Water is also a product of natural ecological cycles. Forests and other areas of vegetation trap rainfall, prevent erosion, create rivers and lakes, and recharge the aquifers from which we draw the water we use.

Other examples of environmental or ecological services are less obvious. All agricultural products without exception have their origins in wild varieties whose genes evolved in natural environments over millions of years. The domestication of species by human beings speeded up this process. Yet, even the most modern of agricultural technologies depend fundamentally on wild species for their survival. Despite the extraordinary advances in genetic engineering that have permitted the manipulation of genes and the consequent improvement and development of new varieties useful to humanity, their success depends to a great extent on retaining access to the wealth and variety of genes coming from species which inhabit natural ecosystems. Most of the latter are currently to be found in developing countries.

On the other hand, agriculture is dependent on many other environmental services, such as the regeneration of soils through ecological and microbian processes, the defense against erosion which forests provide us, and the natural agents that control outbreaks of plant disease.

Natural ecosystems not only support current activities: they are also where our future opportunities lie, however hard it may be for us to measure or imagine these opportunities at the moment. Biodiversity embraces an almost infinite number of opportunities that we have only recently begun to appreciate and to explore in a systematic manner.

Non-renewable resources should be exploited without damaging the environment: this means taking steps to avoid pollution and reduce to the minimum the possible risks associated with extraction, processing and transport of resources. Finally, considering that these are resources which will finally run out, it is essential that the extractive companies consider the locations of the resources and the country as a whole should benefit from the income generated during a project’s life, so that new productive activities and services may be initiated once the resource is exhausted.

The value of biodiversity and environmental services

The environment and biodiversity – that is, the different life forms which manifest themselves in a variety of genes, species and ecosystems – provide a series of services which make human life on earth possible. These services include purifying air and water, maintaining the climate, ensuring soil fertility and recycling the elements which support the existence of the biosphere. They also provide food, medicine, materials and energy for all types of human activity – without considering the intrinsic value that can be attributed to the diverse species which inhabit our planet (Box 5.2).

Nevertheless, perhaps because they are so obvious and omnipresent, the full magnitude of the earth’s environmental services and biodiversity have not until recently been properly evaluated. Only when the scale of human activity surpassed the capacity of automatic regeneration possessed by our ecosystems – something which happened in the last third of the 20th century – was attention paid to environmental services and biodiversity.

In particular, the “greenhouse effect” – caused in great part by the increasing emissions into the atmosphere of gases produced by human activities – has led to global warming and climatic variations that are both extreme and unusual. Given that it is the many highly industrialized countries that generate most of the gases which produce global warming – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), fluorine and carbon compounds – international agreements to control it establish mechanisms by which those countries whose emissions exceed permissible limits must pay compensation to those which...
maintain their emissions below those limits. Tropical forests absorb and fix the carbon content of CO₂. Maintaining these forests in their natural state is an environmental service which could be the object of financial compensation.

Peru is considered to be one of the world’s top eight countries in terms of biological and ecological diversity. Its location within the tropics and its varied geography have given rise to a wide range of flora and fauna in its Amazonian forests, its Andean mountains and the valleys between, its more than 6 million hectares of wetlands, its dry tropical forests and its arid desert strip which is skirted by an ocean that is one of the world’s richest in terms of nutrients. Peru is home to one of the world’s “Vavilov centers,” the origin of a series of crops that have now extended across the globe (Figure 5.1). The “megadiversity” which characterizes Peru is expressed, in part, in the large number of cultivated fruits and vegetables: there are 3,000 varieties of potato, for example.

Peru’s national territory comprises a wide range of eco-regions and 84 of the 104 life-zones known to the planet earth (Chapter 6). These zones are home to 19% of the world’s species of birds, 9% of the world’s mammals and 9% of its amphibians. The Amazon, for example, shelters a huge number of species. The area of Yanamomo in the department of Loreto, with 300 species per hectare, is the world’s richest region for trees. On a single tree in the Manu National Reserve (in Madre de Dios department) known as Shihuahaco, entomologists discovered 5,000 species of insect, 80% of them hitherto unknown to science. The same area is home to the greatest density of reptile variety for its size in the world. Not far away, the region of Purus holds the world record for mammal diversity. It is the extraordinary capacity for photosynthesis possessed by the tropical forest that underpins Peru’s prodigious biodiversity (Box 5.3).

The Andean region also possesses considerable potential biodiversity: it is characterized by harboring unusual species that have adapted to the conditions pertaining in highland ecosystems. Andean genetic resources could make significant contributions to the development of new varieties of crops, as happened in the past with the emergence of potato, corn, pumpkin and beans – now leading crops. There also exists the still-unexplored possibility that many of the species and varieties that exist in the Andes and the jungle could be the basis for new, organic chemical products.

There are serious threats to the survival of this natural treasure-trove, however. In the case of forests, the greatest danger is deforestation caused by the colonization of the eastern slopes of the Andes, by the cultivation and industrial processing of coca leaf and by indiscriminate logging. Even though the rate at which forests are being destroyed is alarming, some 90% of the jungle region is still...
BOX 5.3

Photosynthesis in the tropical forest

The principal resource of the Peruvian Amazon is the capacity for photosynthesis possessed by its tropical rain forests, which serves to sustain a large variety of species. Photosynthesis also permits the absorption and fixation of the carbon contained in the earth's atmosphere, which helps reduce the gases that produce the greenhouse effect. This capacity needs to be studied, conserved and exploited in a rational manner, so as to avoid any harmful modification in the delicate ecological balance that makes these forests a renewable resource with enormous potential.

Among other things, the rational and sustainable use of the Amazon region's capacity for photosynthesis requires measures such as the following:

- Rationalization of stock-raising and agricultural activities, their adaptation to the climatic cycles and the conditions which prevail in the tropical rain forest
- Systematic study of the possible uses of the flora and fauna of the Amazon in the pharmaceutical, cosmetic and perfume industries, among others.
- Adoption of rational procedures and measures for the use of fauna, taking into account the ways in which the aboriginal peoples use them.
- Improvement and decentralization of the administration of forests, so as to encourage appropriate management and avoid the intensive exploitation of a few species.
- Establishment of wood processing industries with technologies that have little impact on the environment.
- Construction of transport infrastructure that is in accordance with the geography and characteristics of the Amazon (for example, planes and dirigibles for air transport and hovercraft for water transport).
- Design and construction of settlements which minimize negative impacts on the fragile Amazonian ecosystem.

Source: Francisco Sagasti and Ignacy Sachs, Hacia una estrategia de industrialización de la selva peruana, Ministerio de Industria, Comercio, Turismo e Integración, Lima, January 1973 (mimeographed).

tree-covered. Similarly severe are the ravages suffered by Peru's highland and coastal valley ecosystems, and the pollution of its water resources: as a result, many natural habitats have been destroyed and a large number of animal and vegetable species have become extinct.

In 1990, Peruvian legislation created the National System of Natural Areas Protected by the State (ANP in its Spanish initials): its mandate was to legislate on the management and protection of areas of natural and cultural importance for Peru and the world (Box 5.2). Yet the 46 areas which are protected or declared natural reserves represent a mere 8% of the national territory (by comparison, Costa Rica protects 25% of its national territory). Huge areas remain without any protection whatsoever: they have not even been studied or registered. The ANP has still only a fledgling management and faces serious legal, administrative and financial obstacles: it has failed to significantly involve either the private sector or civil society organizations in the activities of conservation and protection of Peru's biodiversity.

For these reasons, it is necessary to adopt urgent measures to promote the exploration, conservation and sustainable use of Peru's biodiversity. This will require legal, administrative and financial initiatives, backed by broad national consensus and involving the State, the private sector and civil society organizations.

But it is impossible to conserve or protect what we do not know. For example, the limited information available on the forest species of the Peruvian Amazon - such as their biological characteristics, their growth rates, the diseases that could affect them, and their physical and pharmacological properties - makes it extremely difficult.
difficult to design policies and laws for their proper exploitation. One hectare of jungle in its natural state could be assigned considerable economic value if it were able to supply the local Peruvian and international markets with a variety of products – cat’s claw, for example – on a regular and sustainable basis. Nevertheless, until a few years ago, one hectare of jungle was worth more burned, sown with rice and then turned into pasture land: that almost inevitably led to soil degradation and irreversible loss of the tropical forest. There are two reasons for this totally undesirable outcome. First, the scant information available on the economic value of tropical forests when they are preserved in their natural state and exploited in a sustainable manner. Second, the existence of a system of economic and legal incentives

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**BOX 5.4**

**The National Biodiversity Institute of Costa Rica**

Costa Rica’s National Biodiversity Institute (INBio) was set up in 1989 as a non-profit civil organization that protects public interests: it is an example of what can be done to acquire knowledge of, conserve and utilize biodiversity in a rational and sustainable manner. It is financed through contracts for the sale of services, from grants made by foundations and international cooperation agencies – and it still contributes to financing of some government agency programs. Its principal activities are:

**A biodiversity inventory.** INBio is in charge of the national Biodiversity Inventory, compiled on the basis of material and information gathered by a group of men and women living in the communities close to the national parks: they are known as “para-taxonomists.” They receive intensive practical training for six months in the fundamentals of biology, ecology and taxonomy; collection and preservation techniques; data management and information processing; and administration and maintenance of equipment. The para-taxonomists gather specimens and carry out initial procedures in 23 biodiversity stations set up all over the country. The information is subsequently sent to INBio’s headquarters in San José.

**Search and promotion of sustainable uses for biological resources.** This activity is carried out through “biodiversity prospecting.” It consists of the systematic search for new sources of chemical compounds, genes, proteins, micro-organisms and other products of potential economic value for the pharmaceutical, cosmetic, agro-industrial and biotechnological industries. The process begins with the location, detailed description and collection of species which – because they are widely available and abundant – are in no danger of genetic erosion. The compounds contained in these species are subsequently identified in a preliminary manner. Those that have economic potential are then handed over to companies and other institutions associated with INBio. If any of these compounds reach the stage of commercial exploitation, the company or institution pays a royalty to INBio.

INBio has developed a series of research agreements for bio-prospecting with academic centers and private businesses. These agreements promote innovation, apprenticeship and the increase of Costa Rica’s scientific capacity: they include regulation governing access, equity, transfer of technology and training. In addition, they generate significant levels of revenue – amounting to several millions of dollars a year – which support INBio’s activities as well as other conservation initiatives. Among those who have signed agreements are academic centers such as the University of Costa Rica, Strathclyde University and Cornell University, and private companies like Bristol Myers Squibb, Merck & Co., Givaudan Roure, and Diversa.

**Information administration and organization.** INBio stores, organizes and publishes information relating to Costa Rica’s biodiversity. This is carried out through the development of programs and software tools designed to promote knowledge, sustainable use and conservation of biodiversity; support for users of the Institute’s information on biodiversity; maintenance of a web site which contains more than 10,000 pages of free information; the development of publications and materials making use of multimedia technology, particularly in CD-ROM format; consultancy and development of training workshops for the management of information on biodiversity; and the use of systems that provide both basic information and and geographically-ordered information covering the entire country for all users of INBio’s services.

**Generation and transfer of knowledge to society.** INBio publishes at local and international level information on Costa Rica’s biodiversity, on the role of prospecting in conservation, and the importance of biodiversity in social development and the quality of life of Costa Rica’s inhabitants. It also runs a series of training programs at national and international levels, as well as educational programs on biodiversity for schools and universities. At the start of the year 2000, it inaugurated the INBiopark, a large educational park with installations specially designed to house permanent exhibits – many of them interactive – on biodiversity in Costa Rica and the rest of the world, on the national system of protected areas and the varied species of plants and animals native to Costa Rica.

which encourages the irrational exploitation and destruction of huge forested areas of the Amazon jungle.

All this justifies giving a high priority to scientific and technological research into natural resources and biodiversity, and into those economic and social studies which are oriented towards the formulation of policies for rational exploitation. We must assign financial resources, strengthen and create research institutions and study centers, set up academic programs and scholarships to develop human resources, and encourage the participation of the private sector, civil society organizations and international cooperation. Costa Rica's National Biodiversity Institute is a good example of the type of institution which needs to be set up (Box 5.4). At the same time, we must salvage and give recognition to the value of the traditional knowledge of natural resources and biodiversity possessed by indigenous peoples: we need to record, systematize, protect and evaluate that knowledge, which could represent a valuable starting point for scientific and technological research. And it could allow us to expand still further the areas of application of that knowledge.

It is highly improbable that initiatives to exploit rationally and systematically the resources provided by the world's biodiversity will arise automatically, without combined efforts on the part of the State, private business, non-governmental organizations, the academic community, foreign companies and international cooperation agencies. A first task is to identify productive activities based on these resources, taking into account their availability, the possibilities of adding value to them, the existence of niches in the international markets and competitiveness in terms of quality and price of the end products. The “green trade” in ecologically friendly products is a source of very interesting opportunities for countries such as Peru, particularly in the context of a global marketing situation where consumers in the rich countries are paying special attention to the protection of the environment. In a similar manner, ecotourism centered on visits to places with special ecological and biological characteristics – such as tropical forests, zones with high levels of biodiversity and non-polluted natural areas – could become an important economic activity, generating both employment and foreign exchange earnings.

### Forestry resources

In the mid-1990s, the exploitation of forestry resources accounted for only around 3.2% of GDP and 0.56% of exports. The scant economic importance of current forestry activity is in stark contrast to its potential. Around 58% of Peru's national territory is tree-covered – one of the highest percentages in the world. Peru also has a wide variety of forest ecosystems (Table 5.3). The experience of other countries which possess a similar blend of forestry resources suggest that these could be converted into one of the mainstays of our economy, not only through timber production but also through a variety of products for industry – always in a framework of the sustainable use of our biodiversity.

However, the heterogeneity of the tropical Amazon rainforest, evinced in its enormous variety of species, makes commercial exploitation more difficult. The Peruvian jungle produces an average of 150m, of wood per hectare, but only around 2m, corresponds to commercially viable species (mahogany represents 70% of the global demand for wood). This encourages highly selective logging. Often, extensive wooded areas are destroyed just in order to cut down a few trees. When other trees, supposedly without value, are discarded, the possibility of making use of the forest as a whole is reduced. Through

<table>
<thead>
<tr>
<th>Principal forest ecosystems</th>
<th>Area (in hectares)</th>
<th>Area (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COASTAL REGION</strong> (23% of total area covered by natural forests)</td>
<td>3,203,500</td>
<td>4.2</td>
</tr>
<tr>
<td>Carob trees</td>
<td>1,387,500</td>
<td></td>
</tr>
<tr>
<td>Huilataco</td>
<td>164,000</td>
<td></td>
</tr>
<tr>
<td>Mangroves</td>
<td>5,800</td>
<td></td>
</tr>
<tr>
<td>Deciduous trees (open)</td>
<td>178,200</td>
<td></td>
</tr>
<tr>
<td>Deciduous trees (dense)</td>
<td>1,268,000</td>
<td></td>
</tr>
<tr>
<td>Formation of hillocks</td>
<td>200,000</td>
<td></td>
</tr>
<tr>
<td><strong>HIGHLANDS REGION</strong> (7% of total area covered by natural forests)</td>
<td>2,403,200</td>
<td>3.2</td>
</tr>
<tr>
<td>Quinua</td>
<td>43,000</td>
<td></td>
</tr>
<tr>
<td>Perennial scrub</td>
<td>1,758,200</td>
<td></td>
</tr>
<tr>
<td>Tolares</td>
<td>602,000</td>
<td></td>
</tr>
<tr>
<td><strong>JUNGLE REGION</strong> (92% of total area covered by natural forests)</td>
<td>69,852,100</td>
<td>92.6</td>
</tr>
<tr>
<td>Dense cloud forests</td>
<td>13,925,000</td>
<td></td>
</tr>
<tr>
<td>Dense heterogeneous forests</td>
<td>48,003,700</td>
<td></td>
</tr>
<tr>
<td>Podocarpus</td>
<td>152,800</td>
<td></td>
</tr>
<tr>
<td>Alta palms</td>
<td>1,603,300</td>
<td></td>
</tr>
<tr>
<td>Pacales</td>
<td>1,493,300</td>
<td></td>
</tr>
<tr>
<td>Swampy forests</td>
<td>4,674,000</td>
<td></td>
</tr>
</tbody>
</table>

research and studies to broaden the range of commercial uses, complemented with efforts to open up new markets, it will be possible to incorporate species whose exploitation previously did not appear to be commercially viable and thus raise the rates to between 10 m and 15 m of wood per hectare of forest.

Slash-and-burning and clear-felling of forests to make way for agricultural and stock-raising land are the principal causes of deforestation in Peru. Between them, in the early 1990s, the two were responsible for the destruction of almost 80% of the total 40 million cubic meters of biomass lost every year. To these practices must be added the use of firewood as a fuel (this represents some 17% of the loss of biomass), the degradation of river basins and the erosion of hillsides which reduces forest cover, and both the ravages produced by cultivation of coca and the attempts to limit its production (destruction of wooded areas to sow coca, use of defoliants to eradicate coca crops, pollution of soils and rivers by chemical substances used in processing coca leaf). Deforestation in Peru has reached the alarming level of 0.10 hectares per inhabitant per year: this compares with 0.006 in Brazil, 0.004 in Latin America and the Caribbean as a whole and 0.003 worldwide.

By comparison with the rapid tempo of deforestation, reforestation efforts are extremely limited. It is estimated that, of the 8.5 million hectares deforested in Peru up to 1996, only around 430,000 hectares have been reforested: that is, around 5.1%. However, this is still progress compared to the situation in the 1980s, when the percentage reforested was only 3.7%. These figures illustrate the huge reforestation drive which Peru must embark upon if it is to avoid the destruction of its forests.

The frontier economy approach dominates the way in which much of the business sector and public sector agencies linked to forestry regard the issue: they believe that the supply of forestry resources is limitless and they pay insufficient attention to conservation and the sustainable use of forests. The principal legal norm governing the commercial and industrial exploitation of forests is the Forestry and Wildlife Law of 1975. This law states that forestry resources belong to the State and they are classified as either natural or cultivated. Natural forests comprise forests located in production areas – divided into national forests and freely available forests – and forests located in protected areas: these cover protected forests and protected natural areas. The exploitation of these forests is governed by authorizations, contracts and concessions granted by the State to individuals, and the conditions vary in accordance with the type of forestry resource, its utilization and the scale of the operation.

A new forestry law was before Congress for the entire decade of the 1990s and, although debated, it was never approved nor was the legal framework in force since 1975 revised; it has been partially modified on many occasions and contains a series of inconsistencies and lacunae. At the start of the 21st century, the legal framework of the forestry sector is uncertain and there is an absence of clear rules of play which would encourage the sustainable use of our forests.

Leaving aside the peasant and native communities, and the inhabitants of areas close to forests who use trees for firewood, construction and other domestic purposes, those who commercially exploit forest resources are subject to a series of regulations that vary according to the size and location of their operations. For example, contracts for exploitation in “natural” forests which involve areas of between 50,000 and 200,000 hectares must integrate the stages of extraction, transformation in owner-operated plants and marketing of end products; they must also support the construction of economic housing, substitute imports or increase exports and annually spend amounts on their operations above a certain legally prescribed minimum. Contracts for extraction in freely available forests cover areas of up to 100,000 hectares and last for ten years renewable. Those who operate under the latter type of contract are legally obliged to use at least 20 kinds of wood, to pay royalties to the State to cover use of the resources and reforestation, and to present a series of technical and economic studies.

At the other extreme are the contracts for those working in areas of under 1,000 hectares for only a year: they do not have to comply with the requirements established for larger areas and time periods, even though these were originally designed to apply to small extraction operations. Those who have small-area concessions have no special responsibilities and no legal, technical or environmental obligations. In practice, this mechanism of awarding contracts has encouraged a large number of medium-sized and big forestry extraction concerns to use a series of small operators to exploit the resources: thus they avoid assuming responsibility for the degradation of forest ecosystems. The techniques and the tools used by small-scale operators – who move each year from one area to another – are wasteful in wood, do not guarantee a regular supply of products to industry and create environmental problems. On top of this, the fact that the areas under exploitation are small and highly dispersed makes control
and supervision extremely difficult for the forestry authorities.

If we are to design and implement a policy capable of promoting the sustainable use of Peru's forests, we must first eliminate the inconsistencies and distortions in the current system of laws and regulations which – through a series of requirements, demands, exemptions, subsidies and bonuses – leads to practices that are rapacious and ecologically irresponsible. From this starting point, it will be possible to design a coherent blend of legal provisions, administrative procedures, tax incentives, financing mechanisms and other measures: this, in turn, will make it possible to realize the huge economic potential of Peru's forestry resources.

At the same time, we must take action against the principal causes of deforestation, by limiting the slash-and-burn of forests for agriculture and stock-raising and encouraging the parallel development of agricultural and forest products. We must stress the importance of reforestation of areas which have already been exploited – while remembering that it is rarely possible to restore the natural biodiversity of tropical forests. We should also encourage the forestation of bare Andean mountainsides which could be planted with trees (as successful experiences in the highlands of Cajamarca have already shown is possible). Other initiatives would include the diversification of forestry resources beyond simple extraction and processing of wood: among these initiatives are ecotourism, biodiversity prospecting with commercial ends and the valuation of the environmental services offered by our forests.

Finally, if we are to achieve sustainability in the use of forestry resources, a series of complementary measures will have to be adopted, such as those mentioned in Box 5.3. Peru will require improved transport facilities if forestry products are to reach the markets (currently, a lorry carrying wood from Iquitos takes almost 30 days to reach Lima, while the same load can be transported from Pucallpa to Lima in 48 hours). We must support studies and research into the use of forestry resources and develop programs to educate Peruvians about the importance of protecting our forests. And we must advance towards a better ordering of the national territory and an integrated watershed management: this will allow us to define plans and programs for extraction of forestry materials within a integral and long-term perspective.

**Fishing resources**

The sustainable use of fishing resources could convert the Peruvian seas into an extremely important source of protein-rich food for present and future generations, while simultaneously generating income, foreign exchange earnings and jobs. The south-eastern part of the Pacific Ocean, which runs along the coasts of Colombia, Ecuador, Peru and Chile, has more marine biomass resources and greater growth potential than any other area in the world (Figure 5.2). This is a strategic zone for world fishing, especially taking into account that the global marine biomass is shrinking, rapidly in the case of certain species of fish which are of great economic importance. It is, therefore, to be expected that pressures will mount in the early years of the 21st century to exploit larger quantities of the resources located in these waters: the countries of the region will need to prepare a coordinated response to ensure that sensible fishing limits are not exceeded and the resource endangered.

Peruvian fishing has been been the object of explosive development in the past half century: it is currently the second most important source of current exchange earnings after mining. Growth in fishing has been accompanied by some serious problems: over-exploitation threatens to exhaust or reduce to a bare minimum the availability of certain species, while the Peruvian shoreline is subject to pollution caused by fishmeal and fishoil processing activities. To these problems we should add the climatic fluctuations associated with the phenomena of El Niño and La Niña which modify the ocean temperatures and the directions of marine currents; these alter the conditions in which fish shoals reproduce and migrate. The combination of overfishing and climatic change can produce catastrophic results, such as the collapse of anchovy fishing experienced in the early 1970s. It took more than 15 years to recover from that collapse.

Estimates of the total biomass and of the particular pelagic species which inhabit the shallow waters and the open sea (principally anchovy, sardine, horse and jack mackerel) are highly variable over time. For example, the total anchovy biomass was estimated at 4.8 million tons in 1978: but that fell to 0.5 million tons in 1983 (a drop of almost 90%). It then recovered and experienced fluctuations until 1991, when the biomass registered strong growth. In 1994, it reached the record of 13.5 million tons, but fell again to 8.8 million in 1995. The biomasses of sardine, horse and jack mackerel also registered significant variations during this period, although they were less extreme than for anchovy.

Volumes of fish caught and landed also reveal wide fluctuations over time (Figure 5.3) and broadly follow the variations in the availability of
the biomass of pelagic species. For a number of years – between 1989 and 1992, for example – catches exceeded the limits which guarantee the sustainability of the resource. From 1992 onwards, when the fisheries ministry opted to maintain a regime of free access for industrial fishermen, the total catch of pelagic species expanded: between 1993 and 1994, Peru reached levels of fishing similar to those which provoked the collapse of fishing activity at the start of the 1970s.

In parallel with this increase in the overall catch, between 1985 and 1995, the hold capacity of the fishing fleet and the installed capacity of the processing plants also increased significantly, reaching levels that were excessively high in relation to the availability of resources. This over-investment – largely financed through borrowing – has bankrupted a large number of companies and seriously affected the economic viability of the fishing sector.
The sustainable use of a renewable natural resource as fragile and vulnerable as the marine biomass demands a series of highly sophisticated public policies. Traditional administrative controls and conventional property rights do not work for a resource that is continually on the move in the open sea. For this reason, a delicate balance between public interest and private economic interests must be achieved, and public policies must be carefully designed so as to overcome both the flaws in the market and the dangers inherent in state intervention.

As in the case of other natural resources, the first task is to change the behavior of entrepreneurs and the government agencies involved in this specific sector. The majority of fishing companies have sought to maximize their profits in the short term by landing the largest possible quantities of fish, without taking into account the impact on the future availability of fish resources. For their part, government authorities have intervened too late, imposing fishing bans and restrictions only after excessive levels of extraction have already ravaged the biomass. Added to this, technical, administrative and financial deficiencies in the government agencies have made it difficult to effectively apply the mechanisms for regulation and control that do exist.

If this situation is to be overcome, Peru must adopt a long-term perspective for the use of its fishing resources, anticipating and pre-empting problems instead of reacting to them. Even though most legal provisions and explicit policies fall within the environmental protection paradigm, in practice the behavior of the fishing sector vacillates between the environmental protection approach and that of the frontier economy. If the marine biomass is to be sustainably exploited, then both entrepreneurs and government must gradually adopt the approaches of resource administration and eco-development.

But, as with forestry resources, one cannot manage in a sustainable manner what one does not know well. Scientific research is, therefore, essential to determine the characteristics, the nature, and the habits of the different species found in Peruvian waters. It is necessary to study the marine currents and the way they interact with other natural phenomena which affect the availability of the biomass; to obtain and continuously update information on the size, location and movements of fish shoals, using advanced tele-detection techniques; and develop mathematical models to simulate and predict the behavior of fish stocks. Together, these will permit the design of public policies and extraction strategies capable of optimizing economic returns while, at the same time, guaranteeing the sustainability of the resource.

The design of policies and strategies should be based on a consensus between the different actors who intervene in the exploitation of fish resources. If that consensus cannot be reached within a reasonable timeframe, the state has the final and inescapable responsibility for defining criteria and regulations for the sustainable use of this important renewable resource. One of these criteria consists in reducing and avoiding pronounced fluctuations in the levels of extraction, which cause uncertainty among entrepreneurs, have negative repercussions on the economy, and make it difficult to maintain the level of the biomass stable over time. The size of Peru’s fishing fleet and the installed processing capacity must be reduced. Some initial steps have already been taken in this direction, primarily as a reaction to the crisis which affected the fishing sector at the end of the 1990s, but which should be resolutely continued until the sector is properly rationalized during the first decade of the 21st century.

Rationalizing the size and nature of the fishing fleet will need to be complemented with controls and incentives to encourage ecologically responsible behavior among fishing companies. Measures will also be required to promote technological innovation capable of raising productivity and giving value added to fish products; also to diversify fishing activity by encouraging—particularly—fishing for human consumption and the farming of marine species.
Land as a natural resource

Peruvian national territory covers a total of 128.5 million hectares: about 10% is coastal land, 20% the Andes and 60% is jungle. Because of the difficult geographical conditions, in the mid-1990s only around 2.9% of the entire national territory was under cultivation. The coast is arid, the Andean highlands have a hostile climate and topography, and the jungle is characterized by fragile ecosystems, torrential rainfall and acid, relatively infertile soil.

Some 4.8% of all land on the coastal strip is farmed: yet it represents 22% of all Peru’s cultivated land and generates 60% of all agricultural production. This is due, in part, to ease of access and because the bulk of public investment in agriculture has gone into financing major irrigation projects for the coastal region. The agricultural lands in the Andes represent some 6% of the surface area, but a large part is used for pasture, while highland agriculture is characterized by extremely low yields. The jungle accounts for under 1% of Peruvian farmland and, beyond the high jungle area on the eastern slopes of the Andes (or the jungle fringe) conditions do not favor agriculture and stockbreeding.

Land that is suitable for agriculture should be considered as a renewable natural resource whose conservation demands decisive action if its fertility and capacity to sustain crops is to be maintained. The greatest problem facing agricultural lands in Latin America is erosion: this has destroyed or reduced the fertility of millions of square kilometers in the region in recent decades. Other problems which reduce the availability of farmland include salinization of irrigated areas, deforestation of large wooded zones and excessive use of fertilizers and pesticides, which exhaust and pollute the soil.

Other problems facing Peruvian agriculture include: the degradation of lands devoted to pasture and stock-raising; cultivation of hillsides with inappropriate technologies; poor drainage systems in areas of heavy rainfall, which creates marshland and swamps; and coca leaf plantations, with the deforestation and pollution that this entails. Towards the end of the 1980s around 80% of all Peruvian farmland was suffering from some sort of degradation, including erosion, excess salinity, swampiness or pollution. Estimates in the mid-90s suggest that 44% of all land suffering from erosion was very slightly eroded, 26% slightly eroded, 24% moderately eroded and 6% seriously eroded. Almost three-quarters of all eroded land is located in the Andean highlands.

Generally, farmers try to counter the loss of fertility of their lands through the application of increasing quantities of synthetic fertilizers. Although fertilizers are an essential element in agricultural activity, they cannot be expected to revert fertility losses unaided — not to mention that they have a negative impact on water quality. In addition, the increasingly intensive use of pesticides contributes to the deterioration of soil quality (Table 5.4).

If farmlands are to be considered a renewable natural resource, then the concept of sustainable development must be incorporated into agricultural practice. This urgent task is complicated partly by the heterogeneity of Peruvian agriculture which runs the gamut from modern, capital-intensive and high-technology crops to traditional farming which is far from capital intensive and based on age-old practices. In addition, the legal framework governing agriculture — which is full of inconsistencies and has a certain anti-business bias — needs a complete overhaul, not just to promote soil conservation but to encourage overall agricultural development.

In the early 1990s, several laws were introduced which provided for some specific advances. For example, the 1991 Law to Promote Investment in the Agricultural Sector determined that rural development projects, irrigation, colonization, communications and engineering works related to agriculture should all include soil management and conservation programs. Other legal norms gave importance to

<table>
<thead>
<tr>
<th>Years</th>
<th>Irrigated land as a percentage of agricultural land</th>
<th>Average annual use of fertilizers (thousands of tons)</th>
<th>Average annual use of pesticides (in tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-77</td>
<td>35</td>
<td>380</td>
<td>2,370</td>
</tr>
<tr>
<td>1985-87</td>
<td>33</td>
<td>430</td>
<td>2,753</td>
</tr>
<tr>
<td>Variation</td>
<td>-2.0%</td>
<td>13.2%</td>
<td>16.2%</td>
</tr>
</tbody>
</table>

Source: Data from Ministerio de Agricultura, quoted by Alberto Parco-Fonti in Desarrollo sustentable en el Peru, Lima: Agenda: PERU, 1999.
Pronamachcs, the National Program for Soil Conservation and Watershed Management (Chapter 6), which was declared of national interest. In addition, laws were published and entities created to regulate the use of pesticides and fungicides, and to promote integrated pest control management, taking account of its impact on health and the environment.

In contrast with these measures, at the start of the 1990s the legal provisions on the intangibility and change of use of agricultural lands – including those on the edge of urban areas – were abolished. This measure facilitates urban expansion, reduces green areas and agricultural lands, and has a negative impact on the ground water which supplies well water.

If land is to be managed as a renewable natural resource, both the design and implementation of public policies must move in the direction of the resource administration approach. This demands integrated treatment of a series of different issues, such as cultivation methods, water management, land use, the use of inputs, and agricultural technology. Moreover, soil conservation requires policies that are differentiated in accordance with the characteristics and location of production units: at the same time, the latter need to be based on a new land ordering system (Chapter 6).

The shortage of cultivable land, the loss of fertility through soil degradation, and the importance of agriculture for the overall development of Peru (Chapter 3), demand the formulation and execution – within the shortest possible timeframe – of a national program for the recovery and conservation of our lands. This program should define objectives differentiated by zones and evaluation indicators, as well as establishing mechanisms to allow for coordination between government agencies and farmers: all with the aim of arriving at the sustainable use of land which is suitable for agriculture.

Water as a natural resource

Water is a natural, renewable resource vital for every living organism and for practically all human activities. Over recent decades there has been increasing awareness that, unless measures are taken, a number of areas of the world will face a severe water shortage in the medium term. This realization has prompted a series of global initiatives aimed at conserving water resources, keeping it clean, and avoiding possible conflicts over its use. If these measures are to be put into practice, we must first change consumption patterns, improve efficiency of our use of water and increase its recycling.

Peru has abundant water resources, but the rugged nature of its geography and the extreme climatic variations mean that these resources are very unevenly distributed among different regions of the country and at different seasons. In addition, Peru has an ocean which – without being a source of water for productive activities or for human consumption – has a complex system of marine currents which give rise to a large and diverse quantity of hydrobiological resources.

The Peruvian hydrographic system is made up of three major watersheds. The Pacific watershed extends over 280,000 square kilometers and is made up of 53 principal rivers which run down from the western slopes of the Andes and are fed by the rainfall and snow melt from the high Andean cordillera. It is estimated that around half of these rivers dry up during the season when there are no rains: this creates serious problems for agriculture and other economic activities, as well as affecting availability of water for human consumption.

The Atlantic watershed covers an area of approximately 957,000 square kilometers: its principal rivers are the Huallaga, the Marañon, the Ucayali and the Amazon. Seasonal rainfall means that these rivers have an irregular pattern of behavior throughout the year, making it difficult to take full advantage of the water that is available.

The Titicaca watershed comprises 12 principal rivers which have their source in the slopes of the Western, Vilcanota, Eastern and Royal cordilleras. Within Peruvian borders, this watershed covers around 49,000 square kilometers including the Peruvian part of Lake Titicaca.

The uneven distribution of water resources in Peru makes it necessary to construct hydraulic engineering works – such as dams, canals, tunnels, pumping stations, reservoirs and treatment plants – to guarantee and regulate the supply of water for agriculture, energy production, industry, mining and human consumption. Many of these infrastructure works require large investment; they also take time to construct, have multiple effects on the environment and, once built, are inflexible and hard to modify. For all these reasons, it is essential to create well in advance a portfolio of projects which are based on projections of demand and studies which analyze their technical viability, environmental impact and profitability. These projects should consider financing options which combine the use of public and private resources and, before their execution commences, the people who will be affected by the works must be consulted. In addition, the construction of small-scale water distribution projects should be pro-
moted to benefit agriculture, to produce energy and for use in human consumption: the latter in combination with basic water and sewerage projects in rural areas and small population centers.

The deterioration of water quality due to pollution is becoming an extremely serious problem in Peru. Discharge of untreated sewage and other organic material into rivers, lakes and the sea is the source of many intestinal diseases such as cholera and typhoid (Chapter 4). Discharges of agricultural, industrial, mining and fishing waste – both organic and inorganic – also pollute waters and affect health. In addition, changes in the volume of oxygen dissolved in water are causing some river and sea species to disappear as well as increasing the costs of industrial maintenance. Peru needs a national campaign to improve water quality, particularly in regard to water for human consumption. It should also promote the construction of treatment plants, the installation of equipment to clean up the discharges from industrial and mining plants, the adoption of measures to protect headwater intakes and the creation of a national water quality and control system.

The vast majority of water users and consumers in Peru adopt either the frontier economy or the environmental approach to the resource: that is, they either consider it as a limitless resource with an extremely low cost, or they are concerned only with correcting the most flagrant deficiencies in its supply and quality. The sustainable use of a natural resource such as water, however, demands the adoption of the resource administration approach. This implies the promotion of a culture of water conservation and taking into account, among other things, of interdependences between the availability of hydro resources, the functioning of the ecosystems where the water sources are located, and the characteristics of the human activities which make use of the resource.

For example, when calculating the price of water, a number of elements must be taken into consideration: the environmental services provided by the zones which capture and store water from rainfall and snow melt, the cost of storage, processing, treatment and distribution, as well as the amortization of the investments made and financial reserves for future investment in other projects. While this may not mean that users and consumers must pay the total cost of the resource, such a calculation highlights the enormity of the implicit subsidy they are receiving from the state. This becomes even more important in view of global climatic change which is modifying rainfall patterns and producing the rapid melting of Andean glaciers – phenomena which could markedly reduce the availability of water resources in the medium term.

The design and implementation of policies for water management is a highly complex task for a number of reasons, particularly because a series of opposing interests must be reconciled. Water is essential both for human consumption and for a number of productive activities (including agriculture, electricity generation, industry and mining), yet these activities are often incompatible or else they limit the subsequent uses which can be made of water (although these limitations can be reduced by investing in water treatment processes). In addition, there are the interests of those who live in water catchment zones, particularly the owners of forests and aquiferous lands which retain water from rainfall and snow melt: they should receive compensation for maintaining these areas in such a state that they can continue to provide environmental services. Once again we take note of the problems of managing natural resources in areas where property ownership is shared: here, public policy must overcome both the pitfalls of the market and those of state intervention.

For these reasons, integrated watershed management (Chapter 6) is one of the initiatives essential for the promotion of the sustainable use of water. This type of approach allows the coordination of different government agencies within the framework of decentralized public management, the involvement of the principal social, political and economic actors in the area, and the planned use of water resources in an integrated, medium and long-term perspective.

Increasing populations and economic growth translate into increased demand for water: public policies must, therefore, take into account the changing patterns of demand. The objective should be to reduce per capita domestic consumption and the units of water per product used by agriculture, industry, mining and other productive activities. To achieve this, a number of measures are necessary, including reducing to a minimum waste and loss of water, eliminating leaks in distribution networks, encouraging the use of more efficient equipment and appliances, and recycling waste water.

Sustainable use of water resources also demands a new legal structure, an adequate system of incentives and an efficient regulatory framework. However, the question of whether market mechanisms are appropriate in the assignation of rights over the ownership and use of water needs careful study; the effectiveness of such mechanisms is far from proven, even in those countries which have far better established market support institutions than Peru does.

Before any measures of this type are decided upon, we must carefully examine the operating logic.
of existing procedures to assign rights over the use of water, particularly in those areas where such rights have been working relatively effectively for decades, or even centuries. In some cases, these traditional procedures take into account a series of factors which market mechanisms find hard to incorporate. For example, the differences in the quality of water at different moments during the short period of rainfall in the coastal valleys means that the same volume of water may not be worth the same at the end of the season as at the start; this complicates the functioning of the water market.

**Mineral resources**

Exploitation of mineral resources has played a very important role in Peru since before the Spanish conquest. Today, it still represents a key part of our economy: mining accounts for almost half of all exports and is the principal source of foreign exchange earnings. And even though mining only generates around 2% of all jobs in Peru, it produces 10% of GDP (Chapter 3). The huge and varied collection of available mineral resources, both metallic and non-metallic, make Peru a world leader in mining activity. The abundance of minerals is due to the Andean Cordillera, whose spurs stretch all over the country to make up two large mineralized areas—the western Andean zone and it counterpart on the east side of the Andean chain. They contain enormous mineral deposits, many of them polymetallic (that is, combining two or more metals).

The western Andean metal-bearing zone is made up of the copper-bearing zones of the Pacific, the polymetallic, high Andean plateau and the iron deposits found on the coast. The first of these is located on the western slopes of the Andes and contains the largest copper deposits in Peru, such as Toquepala, Cuajone, Cerro Verde, Michiquillay, La Granja and Antamina. The polymetallic zone of the high Andean plateau is located between the copper-bearing zone of the Pacific and the western edge of Eastern Cordillera: this is the most extensive and richest mineralized zone in Peru. It has important deposits of lead, silver, zinc, copper, gold, tungsten, mercury, antimony, vanadium and tin, as well as other minerals. These deposits are located in the northern mining districts (such as Huallanca-Oyon-Raura, Michiquillay and Yanacocha), in the center (such as Cerro de Pasco, Milpo, Morococha and Atacocha), the south-center (Julcani and Castrovireyena, for example) and the south (Caylloma). The iron-bearing zone is located in the central and southern coastal region of Peru: among the country’s iron deposits are Marcona, Acatari, Tupay and Moortios.

The eastern Andean metal-bearing region comprises a vast range of deposits of gold, silver, lead, copper, vanadium, platinum and uranium. Among the principal deposits are copper-bearing Cobriza and a series of gold orebodies which stretch from north to south (such as Pataz-Buldibuyo, Alto Marañón-Chinchipe, Ganso Azul, Rio Negro, Vicabamba, Marcapata and Macusani-Poto Ananea). This metals zone also includes the gold-bearing area of Madre de Dios, which is the main producer of alluvial gold in Peru. Table 5.5 shows the production and reserves of the principal metals produced by Peru. In addition, Peru has some important non-metallic mineral deposits. Among those worth special mention are the phosphates deposit of Bayovar, one of the largest in the world, located on the northern coast of Peru: it could become the principal source of phosphate fertilizers for the Pacific Basin.

The non-renewable nature of mineral resources makes it essential that prospecting and exploration work is continuously carried out so that new deposits may be identified and a wide range of exploitation opportunities kept open. To some extent, maintaining a certain level of reserves ready to exploit could be seen as one way of “renewing” the availability of this non-renewable resource. In addition, technological advances in minerals processing are now permitting the utilization of deposits whose exploitation was not viable with the old technologies: this also increases mineral reserves levels. Nevertheless, we must keep in mind that a mineral cannot be replaced once it has been extracted, that a non-renewable resource inevitably runs out—however far in the future this may be—and that technological advances are finding substitutes for the metals we produce, meaning that exploitation may cease to be profitable.

All this underscores the importance of scientific investigation and technological innovation for the exploitation of mineral resources, particularly in the case of deposits with unusual characteristics. For example, polymetallic mineral deposits are not particularly common in other regions of the world: this means there are limited opportunities for the transfer of technology and makes it necessary for us to develop our own treatment and processing techniques. Research into possible new uses for the metals that we produce could help to maintain levels of demand and counteract—at least in part—the development of substitutes. At the same time, technological advances now allow the processing of the tailings produced as a waste by-product when minerals are treated: the low metal content which they still contain, and which was not used during the initial processing of the mineral, can now be extracted. In this manner, technology can transform something
which was apparently exhausted into a resource with an economic value.

The exploitation of minerals has a series of negative impacts on the environment: in many instances, the resulting pollution has had serious effects on the health of neighboring populations and the capacity for regeneration of ecosystems. For example, over many decades mining operations in the area of Cerro de Pasco and La Oroya generated extremely high levels of pollution of both air and rivers, as well as the problems deriving from the accumulated tailings dumps. The damage, however, is mitigated by the fact that mining activity is generally carried out in barren zones or at altitudes of more than 3,000 meters above sea level which are generally sparsely populated and far removed from vulnerable ecosystems.

Since the early 1990s, mining companies have begun to take account of the environmental impact of their operations – although what they do about it varies considerably according to the size of the company. The largest ones, in which foreign investment predominates, operate under the vigilant eye of a series of public and private organizations. For this reason, they try to respect environmental norms and, in some cases, even exceed what is legally necessary due to pressures from shareholders in other countries or from international non-governmental organizations. These companies have incorporated into their practices a series of measures designed to protect the environment, which is considered a competitive advantage in the international arena.

Peru’s medium-sized companies, in which national capital has a significant participation, behave differently. Some try to imitate the models of environmental protection of the large mining companies while others – many of which face financial and operating problems – see no advantage in this. Neither do they consider the environment needs protection. These companies, therefore, only minimally comply with environmental norms, try to avoid them or simply ignore them. Small mining companies, which operate in highly precarious conditions, generally take no account of environmental issues. Still worse is the behavior of informal miners and artesans: this type of mining is characterized by serious safety problems, working conditions bordering on outright exploitation, and extremely negative effects on the environment.

The behavior of companies and governmental agencies involved in minerals extraction has oscillated between the frontier economy and the environmental protection approaches. The former considers that minerals are a virtually limitless resource and there is no need for concern over the impact of mining on the environment. The latter focuses on the rapid exploitation of deposits while simultaneously trying to mitigate the more obvious environmental damage. However, rational exploitation of mining deposits demands that we advance towards the resource administration approach: this is particularly important in view of the non-renewable nature of minerals and the negative impact mining has on ecosystems.

Public policies associated with this transition must establish a structure of norms and incentives which reconcile business decisions on mining with national development objectives. For example, if we are to reduce to the minimum possible both pollution and the negative effects of mining on the sustainable use of other natural resources (particularly water), then we must ensure that mining entrepreneurs stop considering environmental damage as something external to their company operations: that means building into their production costs the expenses necessary to cover environmental protection. In addition, the rational use of mineral resources demands that we maintain an appropriate balance between levels of exploitation and reserves. The combination of public policies and entrepreneurial decisions should lead to a structure of volumes and extraction timetables that reconciles the profitability of the companies concerned with the contribution that mining activity makes to national development.

For all these reasons, we must design a legal framework and a series of policy instruments to en-

### TABLE 5.5

<table>
<thead>
<tr>
<th>Metal</th>
<th>Reserves</th>
<th>Production</th>
<th>Ratio of reserves to production (in number of years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>48,883</td>
<td>503</td>
<td>97</td>
</tr>
<tr>
<td>Lead</td>
<td>3,702</td>
<td>258</td>
<td>14</td>
</tr>
<tr>
<td>Zinc</td>
<td>11,565</td>
<td>865</td>
<td>13</td>
</tr>
<tr>
<td>Silver</td>
<td>441</td>
<td>2</td>
<td>212</td>
</tr>
<tr>
<td>Gold*</td>
<td>1,850</td>
<td>68</td>
<td>27</td>
</tr>
<tr>
<td>Iron</td>
<td>776,953</td>
<td>2,919</td>
<td>266</td>
</tr>
<tr>
<td>Tin</td>
<td>669</td>
<td>28</td>
<td>24</td>
</tr>
</tbody>
</table>

* Figures in fine metric tons

able us to advance towards a resource administration approach in environmental management, by seeking consensus between public sector agencies, private companies and civil society organizations. Included among the last-mentioned are the organizations which represent communities affected by mining activity and non-governmental organizations for the protection of the environment.

Lastly, the reduction in the stock of natural capital which extraction of mineral resources entails must be compensated by increasing other types of capital (such as productive capacity, human resources, physical infrastructure, generation of knowledge) so that the total stock of capital available to Peru is not diminished.

Energy resources

Energy is vital for all sorts of human activities. Management of energy resources, both renewable and non-renewable, must therefore guarantee the continuous availability of energy at reasonable prices for both domestic and industrial consumption. Peru possesses a wide variety of energy resources, but we have not yet succeeded in making use of them in an integral and sustained manner.

Energy resources that are directly provided by nature are known as primary sources: they include fossil fuels or hydrocarbons (crude oil, natural gas and coal in mineral form), hydro-energy, nuclear power, and energy from the biomass. Those resources, which are the product of the transformation of primary sources of energy, are known as secondary sources: they include processed hydrocarbons (distributed and refined gas, fuel oil, diesel and gasoline), electricity and other products (vegetable coal, industrial gas from coal and coke). At the end of the 1990s, a little over half of the world supply of primary energy (which is the sum of all internal production and the net balance between imports and exports) consisted of crude oil, wood (accounting for some 25%), coal, bagasse, manure and peat (the remaining 10%). The supply of secondary energy was made up 83% by hydrocarbons, 15% by electricity and 2% by other sources.

Proved reserves for the production of commercial energy stand at the equivalent of some 467 million tons of oil: around 21 million tons of this corresponds to uranium which is not yet commercially exploited. The remaining 446 million tons include petroleum reserves, natural gas and the liquids associated with it, mineral coal and hydro-energy, which are the principal sources of primary energy in Peru (Table 5.6).

There is an alarming imbalance between the structure of proven reserves and the production of energy: this can be seen in the number of years during which it will be possible to maintain current levels of exploitation before reserves are exhausted. Petroleum represents 10% of current reserves, but 68% of total production. Unless new reserves are discovered, it will run out in eight years. In addition, proven petroleum reserves represent only 7.5% of possible reserves (Table 5.7) and the number of wells explored and drilled has been falling in recent years (Chapter 3). If we set aside coal – which could be exploited at current levels for around two thousand years without running out – the world's natural gas and hydro-energetic reserves would last respectively for around two centuries and one century. Then there are the non-commercial sources of energy, including wood, bagasse, manure and peat, that are used mainly in rural areas, and alternative sources such as wind, geothermal and solar energy.

The predominance of oil and petroleum derivatives in the world energy supply and demand is one of the principal energy problems that Peru faces. The continual reduction in reserves means Peru must import ever-increasing quantities of oil, making the country more and more vulnerable to fluctuations in its price. Natural gas could replace oil in a number of instances – for example, in thermal electricity generation plants, and in fuel for ground transportation and for domestic consumption. But the changeover from oil to gas takes time and demands large additional investment.

The use of alternative energy sources – solar, wind, geothermal and biogas, among others – is at present fairly limited and could be expanded to complement conventional energy sources. Use of solar energy – for drying grains and fruits, heating water and in ovens and incubators, for example – varies considerably from region to region. The departments of Arequipa, Ica and Cuzco are those that register the highest levels of sunshine per square meter and where this source of energy is most used. Wind energy is used principally in rural areas for pumping water and, to a lesser extent, to generate electricity. Geothermal energy is used in a very limited way, mainly in the northern Andes. The use of methane gas produced in biodigestors could be considerably expanded in rural areas and more use could be made of small waterfalls to generate electricity in mini-hydro plants. Additionally, the manufacture and maintenance of equipment that use alternative energy sources could be developed to become a sustainable form of employment, particularly for people who live in rural areas and small towns and cities (Chapter 4).
The sustainable use of energy resources implies maintaining at current levels, or else increasing, the stock of renewable sources of energy, as well as ensuring a level of reserves that is adequate to match the tempo of exploitation of non-renewable energy sources. Maintaining an energy supply which is constant, varied and reliable is a highly complex task. It demands the design of strategies and policies which take account of a series of factors: among them, the availability and cost of different energy sources; the viability of substituting one energy source with another; the prevailing patterns of demand for energy and the possibility of altering it; whether to import or export energy and the environmental impact of the production; and consumption of different types of energy (Chapter 3). It also requires a broad, participatory process if operating consensus is to be reached which commits the private sector, civil society organizations and the population at large to the design and implementation of energy policies.

The use of energy increases as the levels of economic growth of a country rise, but this increase may not be directly proportional to the rate of economic or population growth. Conservation measures allow a reduction in the intensity of energy use per unit of GDP and per inhabitant, as shown by the experience of the industrialized countries in the mid-1970s (when the price of petroleum quadrupled), and by the fact that per capita energy consumption in the Scandinavian countries is around half of that of the United States. It could, therefore, be said that conservation measures “increase” energy reserves by reducing the intensity with which they are used.

The behavior of companies and government agencies involved in the exploitation of energy resources falls within the environmental protection approach. Strictly economic criteria prevail in their decisions on the exploitation of resources, while environmental considerations are relegated to a secondary position: there are only attempts to repair or control the most obvious environmental damage. One extremely interesting exception was the behavior of the Shell-Mobil consortium while it was in charge of the exploration of the Camisea natural gas fields. Between 1996 and 1998, this consortium took a series of measures to minimize the impact of its operations on the environment; it contracted international experts to evaluate its environmental performance and also invested in the research, classification and protection of biodiversity in its area of operations (Box 5.5).

It is essential to overcome the environmental protection approach and advance towards the approach of resource administration in environmental matters, by placing emphasis on the integrated and sustainable management of energy resources and the ecosystems where they are located. This demands measures to achieve a better match between the patterns of demand for different types of energy and the structure of energy supply; to reduce the intensity with which energy is used in productive activities and promote its conservation; to increase efficiency in both production and consumption of energy; to encourage wider use of alternative energy sources; to introduce clean technologies to minimize the negative impact on the environment of the generation and consumption of energy; and to protect biodiversity and ecosystems in the areas where energy sources are exploited.

Similarly, it will be necessary to design an investment program which allows the gradual increase
of our energy supply in accordance with the requirements of productive activities and domestic consumption. Excessive investments which tie up large amounts of capital should be avoided, as should an absence of investment which would lead to a scarcity of energy: both of these alternatives increase the cost of energy and restrict economic growth.

Reducing Environmental Pollution

A third component of the strands which make up the strategic direction on management of environment, natural resources, science and technology concerns environmental pollution: this both limits ecosystems’ natural capacity for regeneration and has harmful effects on human health. The production of residual waste has been increasing steadily in parallel with the expansion of human activities. By the start of the 21st century, it was reaching frightening proportions.

Peru’s pollution problem is primarily an urban one, although there are also some rural areas — where mineral resources and hydrocarbons are processed — that register significant pollution levels. The rapid expansion of cities and industrial zones (Chapter 6) has contributed to the accumulation of solid wastes, an increase in air pollution and the discharge into the water system of contaminating residues produced both by households and industry. In theory, the fact that sources of pollution are largely concentrated in urban areas should make it easier to identify them and take corrective measures. In practice, the explosive growth of urban waste has far outstripped the capacity for treating them adequately: houses do not have

BOX 5.5

Camisea and the Shell-Mobil consortium

The Camisea natural gas and condensates deposits are located in the Lower Urubamba valley, some 500 kilometers east of the city of Lima in one of most biologically varied the areas in the world.

Camisea’s reserves are of great importance for Peru. The deposits contain around 11 trillion cubic feet of natural gas and 600 million barrels of liquid natural gas: these are sufficient to meet Peru’s energy requirements for many years to come. The Camisea development project will demand investment totaling around US$3 billion; it is estimated that Camisea will generate some US$6 billion in taxes and other revenues for the state in the fifty-year life of the project. The Shell-Mobil consortium reached an agreement with the Peruvian government during the 1990s to explore the deposits.

With the objective of incorporating environmental considerations into the development of Camisea’s natural gas and condensates, in 1996 the Smithsonian Institute for Conservation Biology and Shell Prospecting and Development B.V. Peru (SPDP) — in association with national and international organizations — inaugurated a project denominated “Biodiversity Assessment and Monitoring of the Lower Urubamba Region.”

The main aim of the project was to evaluate six biological groups or components — vegetation, mammals, arthropods, amphibians and reptiles, birds and aquatic creatures — in the areas close to the exploration wells and at certain points along the proposed route of the gas pipeline. It was decided that this information would be used in the decisions taken by SPDP with the aim of minimizing the negative impacts on the biodiversity of the zone of gas exploration and extraction. The project employed the services of around 50 researchers and students, both Peruvian and foreign: they were assisted by twenty guides from the Machiguenga communities close to the exploration areas. The project also contracted the services of internationally recognized independent environmental consultants to carry out environmental impact assessments (EIAs) before each separate stage of the project. These studies were presented to the native communities affected: they were also provided with guidelines to help them better understand the EIAs. The EIA for the Camisea evaluation wells was the first ever to be presented to the Peruvian public— in 1996.

In order to reduce the environmental effects of the project, the exploration phase was organized as a series of isolated locations. The wells were like small islands in the middle of the jungle, and had no highway communication with the surrounding area; the only way of reaching the wells was by air or river. The size of these emplacements was reduced to the minimum so that none of the exploratory well sites occupied more than two hectares each. In addition, a special program was designed to supervise the effects on the ecosystem as well as a waste management program.

In July 1998, the Shell-Mobil consortium decided not to continue with the second stage of the project. Accordingly, a few months later, the work undertaken jointly with the Smithsonian Institute was suspended.

The project on “Biodiversity Assessment and Monitoring of the Lower Urubamba Region” was one of the most comprehensive ever carried out in Peru. Whatever the future of Camisea gas exploitation, it will be necessary to take into account the project’s recommendations and assessments, as well as the experience of the scientists and the Machiguenga guides.

Source: Biodiversity Assessment and Monitoring of the Lower Urubamba Region, Peru, Smithsonian Institute/Monitoring and Assessment Program, Smithsonian Institute, New York, 1998. Interviews with personnel from Shell and the Smithsonian Institute.
Environmental impact assessments and environmental management programs

Environmental impact assessments (EIAs) describe and assess the physical, natural, biological, socio-economic and cultural aspects of the area in which productive activities and investment projects are planned. The aim of an EIA is to analyze the nature and magnitude of the project’s effects on the environment and their consequences. The EIA also proposes measures of foresight and control, to ensure that the objectives of the project are in line with the preservation of the environment. Although such studies should be carried out for any productive activity that could have a significant environmental impact, the way in which the EIA is carried out and the use to which it is put and how demanding it turns out to be differs considerably depending on which sector of public administration it falls under. The three ministries which have made greatest progress in the use of EIAs are energy and mines, fishing, and transport and communications (the latter with regard to highway construction).

EIAs may be carried out by public or private institutions, provided they are duly licensed by the authorities of the sector to which the project corresponds. These authorities are charged with the assessment and approval of the studies carried out, and with following up on and monitoring the commitments assumed by the project’s implementers. Nevertheless, there is often poor coordination between sectors. Additionally, in some instances applicants are only required to present an EIA before embarking on the project — they may not have to obtain explicit approval. These two factors severely restrict the usefulness of the EIA as an instrument of environmental policy. On top of this, there are conflicts of jurisdiction between district and municipal authorities, and between the latter and central government agencies.

In consequence, and despite the proposals presented to Congress by the National Council for the Environment, CONAM, there currently exists no system for environmental assessment, understood as an orderly process for analysis and decision-taking whose objective is to minimize the negative effects of a project on the existing ecosystems. Chaos and lack of coordination prevail. This can lead to flagrant abuses (for example, the construction by the company Lucchetti of a pasta plant in the Pantanos de Villa, an important area of marshland) and means that proper use is not made of environmental impact studies.

In the case of mining, PAMAs must set out the procedures to be followed and a timetable for activities to control effluents; they must also indicate the amount to be invested. This must be at least 1% of the value of gross annual sales. PAMAs may take the form of a contract between the mine operator and the Ministry of Energy and Mines, thus guaranteeing the stability of the conditions agreed. This means that the Ministry cannot make demands which go beyond those set out in the PAMA as long as the company is fulfilling the agreed conditions and the contract is still in force.

Environmental improvement and management programs (PAMAs in Spanish), lay down the commitments assumed by companies with regard to reduction or elimination of their polluting emissions. These programs also set out the investments to be made, the technologies to be incorporated, the actions planned to treat effluents and other measures designed to remain within the maximum level of pollution permitted by the governmental authorities. The majority of PAMAs presented are in the mining, fishing and industrial sectors.

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Solid waste

One of the principal problems faced by Peru’s towns and cities is the management and treatment of

solid waste. The rapid growth of metropolitan Lima and other cities in the rest of the country has speeded up the production of waste and garbage of all kinds. At the start of the 1990s, the inhabitants of Lima generated around 1.4 million metric tons of solid waste each year: 63% corresponded to domestic garbage, 21% was produced by commercial activity, 10% came from hospitals, and the remainder was solid waste produced by industry, construction sites and markets. Only between 20% and 30% of this solid waste was disposed of in the landfills located on the outskirts of Lima.

The fact that municipal administration is highly fragmented is an obstacle to efficient garbage disposal. The technical, logistical, administrative and financial challenges posed by the management of solid waste exceeds the capacity of most of the district authorities charged with public cleansing services. For example, the area of Lima and Callao consists of 49 separate districts, each of which collects garbage independently. This situation creates conflicts on the borders of one administration and another as well as problems of coordination; that hinders the efficient management of solid waste from a metropolitan standpoint. The situation is similar in other urban centers and towns. If there is to be adequate management of solid waste, it is essential that a metropolitan authority be set up to integrate the current multiplicity of isolated initiatives. This will permit the well-organized disposal of garbage in proper landfills and will allow better supervision of the way that toxic wastes are disposed of: options such as incineration of waste, which could also be harnessed to generate energy, could then also be evaluated.

It is also necessary to encourage recycling of solid waste such as paper, cardboard, wood, fabrics, aluminum and glass, thus reducing the consumption of materials and energy. At present there is a widespread informal network for the recycling and processing of garbage – demonstrated by the small percentage of garbage that reaches the sanitary landfills. This could be better and more efficiently organized. But it is first necessary to create incentives to encourage recycling and to organize a system to separate, collect and process solid wastes that involves municipal governments, private companies, civil society organizations and the informal workers who are currently carrying out the task in precarious conditions which are harmful to their health.

Finally, we must encourage a culture of conservation to reduce the quantity of solid waste generated by productive activities and domestic consumption through educational campaigns to avoid waste.

Air pollution

The deteriorating quality of the air is an increasingly serious problem which particularly affects urban and industrial areas, where there are large numbers of automobiles and factories which emit polluting gases. The increase in respiratory diseases and allergies which are affecting a growing number of city-dwellers is closely linked to air pollution. In the case of metropolitan Lima in particular, the situation is exacerbated by humidity and the adverse climatic conditions which aggravate air pollution for much of the year.

The absence of detailed information on the pollution levels in the majority of Peruvian cities prevents us knowing how far the tolerable limits for human beings are being exceeded. Such information is available only for the metropolitan Lima area and a handful of other places, such as La Oroya and Ilo, where air pollution is obvious and extremely harmful to health. To provide some idea of how serious the situation is, in 1992 the emission of sedimentary solid pollutants (calcium, sulphur, copper, lead and sodium) and of polluting gases (sulphur dioxide and carbon monoxide) exceeded the limit established by the World Health Organization (5 metric tons per month per cubic kilometer) in 28 of the 26 districts that make up metropolitan Lima. In six districts the emission of pollutants was double the permissible limit and in five, it was three or four times that limit.

In urban areas, the pollution generated by vehicular transport increased significantly during the 1990s; this was primarily due to growth in the total number of cars and buses through the import of used vehicles: many of these had been scrapped in their countries of origin because they exceeded the pollution limits established there. To this can be added the problem of inadequate maintenance of vehicles and traffic congestion, both of which increase harmful emissions. In addition, the informality of passenger and freight transportation leads to unfair competition, discourages investment in maintenance and renovation of transport fleets and contributes to the deterioration in air quality.

If air quality is to be improved, then, the problem of urban transportation must first be resolved. This is a complex task which demands agreement between the central government, the provincial and district authorities, the National Police and the transport companies: car owners and public transport users must also be actively involved. Among the wide range of measures to be adopted are the tender of urban routes to companies operating modern vehicles that reduce noxious emissions; this will encourage the use of public transport and the gradual replacement
of obsolete vehicles. At the same time, we must explore the viability, and encourage the use, of alternative forms of both mass transport—such as the metro, trolleybuses and trams—and individual transport, such as the bicycle. In this way we can reduce congestion on the roads and the exhaust gases produced by vehicles.

The design and execution of programs to reduce air pollution created by productive activities also demands coordination between the different sectors of central and local government, as well as an active participation of representatives of business and environmental protection organizations. Among the tasks to be realized are the determination of acceptable standards of pollution emission, the organization of systems to measure emissions and the establishment of procedures to ensure that norms are being observed and companies which exceed the permissible limits are being penalized.

Meanwhile, the emission of gases that contribute to the greenhouse effect has been gradually increasing over the past three decades. Between 1970 and 1992, carbon dioxide emissions expanded by 14% and sulphur dioxide emissions by 23%; and they have increased even faster since 1992, the year in which the import of used vehicles commenced. Consumption of fossil fuels derived from petroleum and industrial activities also contributes to the destruction of the ozone layer. Policies to encourage the use of cleaner energy sources—particularly natural gas and liquid petroleum gas, LPG—can also help to reduce air pollution and improve its quality.

Finally, we must promote the use of clean production technologies that are not just limited to reducing the emission of pollutants via filters and other recovery systems but that also eliminate waste and avoid the emission of polluting particles, gases, liquids and solids (Box 5.7). Clean technologies and associated quality control measures permit more efficient use of inputs and equipment, as well as increasing productivity, reducing operating costs and conserving water and energy. In addition, since international trade is now paying greater attention to the environmental behavior of companies, the use of clean technologies could turn into a competitive advantage.

**Water pollution**

Water pollution in rivers, ocean, lakes and lagoons due to the discharge of domestic sewage and industrial effluents is another very serious envi-

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**BOX 5.7**

**ISO 14001 and environmental management**

ISO 14001 is an instrument designed to improve the environmental management and performance of industrial companies. Among its objectives, it seeks to bring national legislation on environmental protection into line with regional and international norms, with the aim of reducing the probability that they could be used as barriers to trade. The standard covers issues such as the use of raw materials and the production of waste, internalization and correct measurement of environmental costs, the reduction of noxious emissions and the transfer of clean technologies.

The United Nations Commission on Sustainable Development has proposed that governments promote the application of ISO 14001 through fiscal incentives and other similar measures; also that financial institutions promote the transfer of clean technologies by offering better financing conditions to companies which decide to comply with the ISO 14001 norm. According to the Commission, the gradual compliance with ISO 14001 standards by companies for their products and processes will result in the reduction in emissions and waste, as well as better utilization of raw materials, inputs and materials.

The Commission foresees rapid growth in the transfer and application of clean technologies. A prerequisite for this is the promotion of greater awareness of the environmental impact of industrial operations. At the same time, the Commission stresses the need to prepare governments, international organizations, financial institutions and industrial groups to support the certification process of ISO 14001; it suggests that measures be taken by individual countries to reduce the costs of the adjustment process.

At the end of the 1990s, the National Environmental Council, CONAM, encouraged the creation of an association of companies committed to implement ISO 14001 in their operations. The commitment was initially signed by 14 companies, half of which have already complied with it and have helped by sharing experiences in the application of the norm. Under the leadership of the Environmental Protection Committee of the Entrepreneurial Association Peru 2021, other companies are now evaluating their participation in the association with a view to improving their own environmental management: it is hoped that several dozen more will implement the standard in the next five years.

The major sources of pollution in the sea waters off the coast are the fishmeal and fishoil processing plants which are not equipped with stickwater treatment systems. This is an effluent that contains a high level of organic material and demands large quantities of oxygen to be broken down: this has a negative impact on the marine life in areas close to the points where the waste is discharged. For example, the extremely high levels of pollution registered in the bay of Chimbote in the 1960s and early 1970s – when the sea appeared to be continuously boiling through the emission of gases produced by the decomposition of organic material from discharge of stickwater – turned it into a horror story told at the World Conference on Environment and Development held in Stockholm in 1972. However, in subsequent years and particularly in the second half of the 1990s, various programs were implemented to help companies producing fishmeal and fishoil to modify their procedures and equipment in order to treat stickwater and other effluents before tipping them into the sea.

The presence of excessive quantities of chemical pollutants and heavy metals – associated principally with agricultural, mining and fishing activity – renders the waters of many Peruvian rivers useless for most purposes. Surface and underground water in rural areas is contaminated by waste originating from the use of fertilizers and pesticides, or else coming from mine tailings and coca leaf processing. The problem is difficult to control, since it is caused by many different sources of pollution. In this sense, rural areas differ from urban areas, where, at least in theory, the degree of concentration of the points where waste is discharged would make supervision easier.

At the same time, there is a measurable deterioration in the quality of water in urban areas – produced by a combination of domestic sewage discharge, organic industrial waste and inorganic waste coming from the chemicals industries. All of which means that water pollution is the principal cause of gastrointestinal illnesses such as typhoid, cholera, salmonella, dysentery and gastroenteritis.

If we are to guarantee the provision of clean drinking water and restore its character as a public asset which all Peruvians should have access to, we will have to make significant investments in sanitation projects (Chapter 4), in water treatment and in the control of effluents from industrial plants. This, in turn, demands the formulation of long-term plans and investment programs: central and municipal government, international financial organizations and private investors should all participate in this. Over the last few years, a number of countries have experimented with mixed schemes for the financing and operation of water and sewerage services: this has succeeded in boosting the resources of the public sector and improving management of the services. It is an experience which should be taken into account in the design of water and sewerage investment plans.

In addition, we must set up legal regulations and systems of supervision and control to dispose of effluents produced by industrial, agricultural, mining and fishing activity to ensure that companies bear the cost of eliminating any toxic and harmful waste that they discharge into the sewerage system or directly into rivers, lagoons, lakes or the ocean. These initiatives need to be closely linked to integrated management of watersheds and water as a natural resource (Chapter 6).

**DESIGN AND EXECUTION OF ENVIRONMENTAL POLICIES**

A fourth component of the strands that make up the strategic direction on management of the environment, natural resources, science and technology is concerned with the design and execution of environmental policies. These policies demand special attention, since they are complex and relatively unknown in Peru; also in light of the importance the environment and natural resources play in Peruvian development.

The first legislative measures to control pollution in Peruvian history were taken in the early 1920s: they came as a result of protests against the emissions of the La Oroya smelter, which then belonged to the Cerro de Pasco Corporation. The measures succeeded in obliging the company to install equipment to recover and eliminate suspended particles in the smoke issuing from the refinery. During the 1940s, 50s and 60s, more legislation emerged on sanitary controls for industrial plants and the elimination of noxious odors and noise, as well as to regulate discharge of industrial waste into the sewerage system. The 1970s saw publication of the General Water Law, the Sanitary Code, the General Mining Law and the General Law on Wildlife; with all these, a body of environmental legislation began to take shape. During the same period the National Office for the Evaluation of Natural Resources, ONERN,
was set up: it was the first governmental agency to receive a wide-ranging mandate in matters of natural resources and environmental protection.

The publication in 1990 of the Congressional Code on the Environment is a milestone in the design of environmental policies. This code introduced a series of measures for environmental management, including damage prevention, the principle that the polluter should pay for the repair and restoration of any damage caused and the legal obligation to carry out environmental impact assessments. Nevertheless, the Code underwent a number of modifications during the 1990s which limited its scope of application and weakened it. At the same time, three new institutions were created: the National System of State-Protected Areas, the National Environmental Council (CONAM) and the National Environmental Fund (FONAM); although the last-mentioned has not yet started operating. In 1997, CONAM proposed a plan for coordination between governmental agencies, the private sector and environmental organizations, known as the Structural Framework for Environmental Management (or MEGA in its Spanish initials). It has not yet been implemented, however (Box 5.8).

The explicit environmental policies formulated by CONAM and other government agencies have been hindered by a series of measures designed to promote investment, facilitate the exploitation of natural resources, reduce the penalties for environmental damage, and limit the demands linked to the carrying out of environmental impact assessments. The consequences of these and other similar measures give rise to an implicit environmental policy which runs counter to the explicit policies. In addition, the environment-related government agencies receive extremely limited funding from the state budget and depend on international cooperation for much of their work. This means they are understaffed and lack the facilities to carry out their functions properly.

The inconsistencies and contradictions between implicit and explicit environmental policies create confusion. They mean that the resultant policy is not favorable to the sustainable use of Peru's natural resources, its conservation, its biodiversity, ecosystems and its environmental protection. Explicit policies fall within the environmental protection approach, although in some cases, such as the new draft Law on Forestry, they verge on the resource administration approach. Implicit policies, on the other hand, retreat in the direction of the frontier economy approach and its assumption that resources are limitless. In other cases, implicit policies adopt the environmental protection approach. Whether as a result of their own decision-making process or in response to pressures from environmental organisations, some large foreign and Peruvian companies are moving in the direction of resource administration, however.

Table 5.8 compares the explicit and resultant environmental policies adopted by some of Peru's productive sectors, placing each of the latter within the environmental management approach or paradigm described. It is clear that the resource administration approach is still far from predominant: and we are farther still from adopting the ecodevelopment approach.

If we are to advance towards the design and implementation of environmental policies, we must strengthen the relevant institutions, particularly with regard to the Executive Branch (Chapter 7). We must also place greater emphasis on incentives than on controls: this will stimulate environmentally responsible behavior, help organize information systems, promote research, provide technical assistance, and encourage citizen participation.

Institutional development

The system of institutions linked to the creation and implementation of policies on sustainable use of natural resources and protection of the environment has a number of special characteristics. It involves many sectors of the public administration, it has to articulate a coherent overall vision of many different and specific situations, and it deals with an issue that is relatively new for Peruvian administrators. This makes it necessary to pay special attention to the strengthening of governmental organizations involved in the design and implementation of these policies.

The first task is to secure a political commitment at the highest possible level, one which will resolve the conflicts between different sectors of the executive and which will reconcile explicit and implicit environmental policies. For this to happen, the National Council for Natural Resources and Environment must be directly linked to the Presidency of the Council of Ministers and must operate as the highest instance for formulation and coordination of environmental policies (Chapter 7). This Council should have a technical secretariat capable of formulating policy proposals, calling on all the different sectors involved in the use natural resources and the protection of the environment, and bringing sectoral and regional policies into line. It should also coordinate procedures for implementing them.

At the same time, it will be necessary to strengthen the decentralized units in the various ministries and sectoral government agencies that are
MEGA is a system of environmental policy coordination whose aims are to bring sectoral policies into line with national environmental policy, resolve disputes generated by overlapping jurisdictions or administrative vacuums, and strengthen the capacities of the public sector in environmental management and in reaching accords with the private sector and civil society.

MEGA establishes four levels of decision-taking and responsibility in environmental management. Level 1, comprised of the Council of Ministers, defines the principles and objectives of environmental protection and sustainable development. Level 2 comprises CONAM and a Multisectoral Technical Commission in which are represented the vice-ministers of the sectors which have to do with the environment. CONAM proposes environmental policy guidelines, strategies and instruments consistent with the principles and objectives established at Level 1, while the Multisectoral Technical Commission coordinates sectoral policies.

It is at Level 3 and below that other sectors of society are incorporated into MEGA activities. In coordination with the Multisectoral Technical Commission, CONAM sets up working groups to deal with specific environmental matters within a predetermined timeframe. For example, in order to establish permissible standards and levels of pollution, it might – at the instigation of the Multisectoral Technical Commission – appoint a group made up of representatives and experts from government agencies, private companies, universities, consultancy companies and non-governmental organizations. This group would draw up a proposal and send it to the Multisectoral Technical Commission for revision. It would subsequently be passed to CONAM for final approval.

Level 4 is comprised of those government agencies that are charged with the execution of policies emerging from the consensual decision-making process established by MEGA. This level is in charge of the operation, implementation and follow-up of policies; and it should progressively incorporate local governments and representative organizations in all areas of the country.

It has not been possible to put the proposed system into practice, in part due to lack of interest on the part of government and MEGA’s own complexity. If Level 1 is to function, it requires a political commitment, which failed to materialize during the 1990s. Level 3 has operated partially and in some cases, but it is far from approaching the concept set out in CONAM’s proposal. The agencies and entities which would theoretically make up Level 4 continue to function without paying any attention to the coordination processes proposed by CONAM.


charged with environmental policies, as well as those that operate at the regional and local level. Even though these units fall under the administration of their sector or of a local government, they should report to the National Council and its technical secretariat in all matters pertaining to policy content. In addition, fora must be created so that private companies and civil society organizations can participate actively in each and every one of the instances involved in environmental policy-making.

CONAM’s proposals on the Structural Framework for Environmental Management (Table 5.8), not yet implemented, are a good basis for the design of a system for formulating and implementing policies for sustainable use of our natural resources and environmental protection.

**Regulation and control of market incentives**

If Peru is to advance from the frontier economy approach towards those of environmental protection and resource administration, then it should widen its range of policy instruments and, in particular, introduce market incentives. The aim of these incentives is to encourage companies to include in their production costs the expenditures necessary to reduce pollution and protect the environment. The idea is to avoid society as a whole – usually through central and local government – having to assume the cost of repairing environmental damage caused by polluting companies. In addition, these instruments can reduce the cost of controlling and supervising compliance by economic agents with environmental regulations.

There are two types of market incentive: tax instruments, which include environmental taxes and tax incentives (Box 5.9), and non-tax instruments. The latter are not linked to the tax system but involve other types of expenses, such as payment for tradable permits, charges for environmental services, and reimbursable deposits (Box 5.10).

Although Peru does not yet have a system of incentives to reduce pollution, some foreign mining
companies have fully incorporated expenditures related to environmental protection into their production costs. The main impulse for this has come from the demands of shareholders in their countries of origin, pressure of environmental non-governmental organizations, and a sense of social responsibility. Moreover, when measures to reduce pollution are adopted at the outset – at the moment the investment project is conceived, the plant designed and the technology selected – it is far easier to incorporate environmental considerations in the cost structure than when a plant has been operating for a number of years without preventive measures having been taken at the start.

The application of incentives requires institutions with qualified staff, and efficient and politically autonomous procedures which are capable of overseeing the proper functioning of the market. There is a special need for government agencies charged with encouraging competition, promoting transparency in business operations and ensuring that companies comply with their legal and tax obligations.

International experience shows that these instruments complement measures of regulation and control; it cannot be expected that market mechanisms alone will substitute for action by government agencies in setting standards and ensuring that companies comply with them. In a medium and long-term perspective, the execution of environmental policies demands an equilibrium between instruments for regulation and control on the one hand, and market incentives on the other.

**Information systems, research and technical assistance**

Systems providing information on the state of the environment and the use of natural resources are a necessary pre-requisite for the design and implementation of environmental policies. A first task is to work out indicators of the use of natural resources so that they can be incorporated into the national accounts: in this way, the contribution of natural capital to overall economic growth can be calculated. In turn, that will allow us to calculate whether Peru has what the World Bank calls a "positive genuine savings rate" – that is, whether it is transforming the natural capital it is consuming into other forms of capital such as physical infrastructure, human resources, or social or financial capital, which will guarantee future well being.

We must also develop indicators on the state of the environment, particularly in areas where pro-

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### Environmental policies in Peru at the end of the 20th century

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<tr>
<th>Approaches for environmental management</th>
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<th>Frontier economy</th>
<th>Environmental protection</th>
<th>Resource administration</th>
<th>Ecodevelopment</th>
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**Explicit environmental policies**
- Forestry sector
- Agriculture and stock-breeding sector: on water use

- Mining sector
- Hydrocarbons sector
- Agriculture and stock-breeding: on land and sanitation
- Fishing sector
- Industrial sector

**Resultant environmental policy and behavior of economic agents**
- Mining sector: small and medium mining
- Fishing sector
- Forestry sector: small producers
- Agricultural and stock-breeding sector: subsistence agriculture
- Industrial sector: small and micro-enterprise

- Mining sector: large mining companies
- Hydrocarbons sector
- Industrial sector: large and medium-sized companies, mainly those oriented to the domestic market

- Forestry sector: large, export-oriented companies
- Industrial sector: large and medium-sized exporters
- Agriculture and stock-breeding: for export
- Hydrocarbons sector: some multinational companies


175
The idea behind environmental taxes is that companies should pay for their emissions or discharges of contaminating waste. They would pay either for the total produced, or else simply for that percentage which exceeds the limits set by environmental authorities. The principal advantage of this tax is that, like other forms of taxation, it obliges the polluting company to incorporate into its costs the amounts necessary to repair damage caused. The design and implementation of a system of environmental taxes demands an efficient tax administration and a staff well trained in the economy of natural resources and environment.

Tax incentives comprise fiscal credits, exemptions and tax deductions. These can be fixed for all companies which comply with certain requirements regarding pollution reduction, or for specific projects and activities. For example, imports of equipment to reduce pollution could be made exempt from customs duties, while companies which employ certifiably clean technologies could be qualify for a lower rate of income tax. These incentives would mean lower fiscal revenue for the Treasury and need to be administered with care. They can be used in conjunction with environmental taxes, in such a way that the taxes paid by the polluters subsidize the incentives granted to companies which reduce their levels of pollution.

Environmental taxes and tax incentives presuppose the existence of a system of follow-up and evaluation of emissions and discharges that permits the calculation of the tax payable, a decision on the amount of subsidy to be granted and an inspection to determine that the commitment to reduce emissions is being complied with. This is a highly complex process and, in countries like Peru, will take time to establish.

Accordingly, countries may prefer to use mechanisms that are easier to apply, such as taxes on inputs. When polluting emissions or waste are associated with a specific input, the input involved is taxed instead of the pollution it produces. The company’s accounts department automatically logs the quantity and the value of all inputs, meaning that the application of this tax does not require a sophisticated system of follow-up and evaluation. For example, fossil fuels with a high sulphur content emit more sulphur dioxide which pollutes the air and causes acid rain. A tax on such fuels, specifically on coal used in generation of thermal energy, would discourage its use and encourage the use of other, cleaner sources of energy like natural gas.


In addition to researchers, there is a need for qualified staff in the central and local government agencies charged with policy design, decision making, setting standards, and overseeing compliance with environmental policy. This entails setting up training programs in public environmental management – something which does not yet exist in Peru. At the same time, there is a need for the provision of information, training and technical assistance on environmental matters at the community level. The better informed the members of a community are, the greater their capacity to negotiate and to demand better behavior by the economic agents in their area. Technical assistance should also be offered to companies in matters such as quality control, use of clean technologies, waste reduction and pollution control. Currently, a lack of knowledge and information often leads to entrepreneurial behavior which is at odds with environmental protection.

Citizen participation

Active citizen participation in the design and implementation of environmental policies is fundamental, as it is in the process of taking decisions on investment projects whose execution...
could affect the quality of the environment. Government authorities on environmental matters should establish mechanisms for achieving such participation, by seeking to articulate the initiatives of the public and private sectors and civil society organizations.

Legal norms governing environmental impact studies in the mines and energy sector indicate that public hearings must be held to allow citizens to make their views on investment projects heard. Hearings called for the presentation of environmental impact studies offer a chance to make observations and request modifications in the design of the project. Nevertheless, it is also necessary to disseminate the information contained in the environmental impact study in order that non-specialists may readily understand it; it is also important that hearings be held close to the place where the project is to be carried out. That will give inhabitants of the area the chance of participating without having to travel far afield.

Citizen participation through non-governmental organizations, professional associations, pressure groups, grass-roots movements and other civil society organizations, has been a key factor in discussions of environmental protection issues. Peru is home to a large number of environmental organizations with the capacity to carry out studies, execute projects and present policy proposals. The pioneer, created in the mid-1980s, was the Peruvian Environmental Law Society, SPDA. At the end of the 1990s, the National Environmental Society was created: it is an umbrella organization which articulates a variety of national, regional and thematic networks and its aim is to create fora for dialogue and consensus on environmental matters. It employs several hundred professionals and technicians all over the country. It recently prepared an environmental policy proposal for Peru (Box 5.11).

BOX 5.10

Non-tax instruments

 Tradable permits are negotiable papers that represent a company's right to emit a certain quantity of pollutants. In order for this instrument to work, the government must set a limit for total emissions and discharges of a determined pollutant in a specific area. Then, permissible pollution quotas are assigned to companies located within the area in the form of papers and permits: these specify maximum levels for pollution by each company for a fixed period of time. The cost of the permits and their tradable character mean that companies are obliged to incorporate pollution elimination into their costs structure. If they exceed the pollution quota they have been assigned, they will have to purchase additional permits. Similarly, if they cause less pollution than they are allowed, they can sell a portion of their permits.

The number of permits granted in each period can be reduced gradually so as to encourage companies to cut down their emissions in an orderly manner and thus facilitate the transition to lower overall levels of pollution. In each determined time period, companies would be required to make a sworn declaration detailing their emissions and discharges of pollutants; at the same time, they would present the relevant permit authorizing the level of pollution declared. The environmental authority would then verify the truth of the company's declarations, in the same way that the tax authority SUNAT verifies the payment of taxes. In addition, an exchange mechanism could be set up to enable companies to trade their pollution permits.

Charges for the use of services are applied to companies, consumers and other users of public services associated with the quality of the environment: these include water consumption and garbage treatment. The charges are added on to the conventional price of these services which do not normally take environmental aspects into account. These payments can cover the cost of processing waste (treating garbage or eliminating toxic wastes, for example). They can add value to, and cover the cost of, environmental services — for example, by making payments to the owners of forests in water-catchment areas to compensate them for not cutting down trees. Another variation on this instrument would be payments to developing countries that agree to conserve their forests, thus absorbing the carbon dioxide that contributes to the greenhouse effect.

Reimbursable deposits are applied to recyclable products that may cause environmental damage if they are not properly disposed of. An additional charge is levied on the price of the product: it is returned when the used product, its container, wrappings or waste are deposited at a collection point. In this manner, recycling is encouraged, consumption of materials and energy is reduced and productive activities associated with the use of recyclable waste are promoted. This scheme has been used particularly for plastic and glass bottles, aluminium cans, cardboard and portable batteries. It could also be used to encourage companies to put into practice the recommendations contained in their environmental impact assessments (EIAs), by requiring a deposit which would be returned once the environmental authority had verified compliance.

Environmental policy instruments

Through a series of consultations in 1999 with its members and with other entities, the National Environmental Society was able to identify a series of instruments necessary for adequate management of the environment and of Peru’s natural resources.

- **Modern institutions of excellence**
Institutions must be strengthened so that they can fulfil a proper role in the protection of the environment. In particular, there should be support for the National Council on Science and Technology (CONCYTEC), the National Environmental Council (CONAM), the Peruvian Maritime Institute (IMARPE), the National Agrarian Research Institute (INIA), the National Institute for Natural Resources (INRENA), the Peruvian Amazon Research Institute (IIAP), the National Program for Watershed Management (PRONAMACHS), local governments and universities.

- **Participation of civil society**
Non-governmental organizations can: propose policies and legislation; organize roundtables and environmental management systems that are open and participatory; resolve environmental conflicts; implement systems for follow-up and evaluation of the state of the environment; and provide technical advice to both state and private organisms and to local communities.

- **Education, science and technology**
Environmental issues and natural resources must be included at all levels of the educational system. In addition, research capabilities in biodiversity and biotechnology must be developed; private companies must be incorporated into the study of environment and natural resources; a biodiversity inventory must be carried out nationwide; and the traditional knowledge of the aboriginal peoples regarding environmental management must be salvaged.

**Scientific research and technological innovation**

The final series of strands which make up the strategic direction on management of the environment, natural resources, science and technology concerns the development of capacities for scientific research and technological innovation: at the start of the 21st century, these have become the foundation of prosperity and well being. The world is entering, at a rapid and uneven pace, into the information society, where the possibilities of creating wealth and improving living conditions depend increasingly on the capacity to generate, incorporate, assimilate, utilize and disseminate scientific and technological knowledge.

One of the most obvious features of the knowledge society is how technological advances and innovations in the area of micro-electronics and data processing are resulting in radical modifications in productive and social activities. The sources of productivity and wealth creation are increasingly dependent on scientific research and technological innovation, as are the quality of information and the capacity of companies, organizations and governments to administer knowledge.

**The information society and its techno-economic paradigms**

The pace at which scientific and technological knowledge is produced has accelerated amazingly since World War II and, currently, the entire global stock of knowledge doubles every four or five years. This explosion of data, information, concepts, ideas, theories and all the many kinds of mental schemes for understanding and explaining the world that surrounds us – that is, everything encapsulated in the word knowledge – has been accompanied by a series of fundamental changes in scientific research, technological innovation and the way in which science and technology is connected to productive and social activities.

Over the past five decades, scientific investigation – the main way to generate knowledge in today’s world – has become far more complex and costly. It requires a huge number of researchers, technicians and highly trained and specialized support staff: it also requires ever more sophisticated laboratories and equipment. At the same time, the close relationship that has been forged between scientific research, technological innovation and the commercial exploitation of knowledge is giving rise to an unusual series of alliances between private companies, universities, academic centers, government agencies and civil society organizations.

In parallel to these changes, the inequalities which exist between rich and poor countries in terms of their scientific and technological capacities has also been increasing rapidly – to the point where, at present, they are much deeper and more persistent than inequalities in wealth distribution. At the end of the 20th century, average per capita income in the

Human resources
It is necessary to train people in environmental management and the beneficial extraction of natural resources; this will enable the carrying out of research projects and the transfer of technologies of sustainable development. A precondition for this is an improvement in the efficiency of national universities and the organization of a program of scholarships abroad.

Information
Available information must be ordered and entered in electronic databases for the environment; this will require the joint efforts of public bodies, private companies, professional associations, business lobbies and other organizations.

Policies and incentives
Peruvian constitutional mandates must be complied with – in particular articles 66, 67 and 68 of the Constitution, which deal with natural resources, environmental policy, biological diversity and the Amazon region. International commitments on these issues must also be respected. Economic and social development policies should incorporate environmental considerations and include environmental costs in the production of goods and services.

Appropriate legal framework
Peru already possesses a fairly complete legal framework governing conservation and the sustainable use of natural resources. Nevertheless, the legal provisions are dispersed and contain loopholes which must be closed: it is also necessary to bring wide-ranging legislation into line with the competencies and functions of local governments. In addition, public officials working in the executive branch and the judiciary must be trained if they are to enforce current laws and other legal dispositions.

Financing
It is essential to take advantage of the funds available internationally for the conservation and sustainable use of natural resources and ecosystems. Environmental considerations must be incorporated into project financing evaluations, and public resources earmarked for environmental protection must be increased. In particular, the National Environmental Fund (FONAM in its Spanish initials), must be financed and brought into operation.

Changes in the way that scientific research is carried out and knowledge accumulated – making them, at least in theory, more accessible – underscore the urgency of designing strategies for accessing the world’s store of knowledge. A precondition for this is possession of a highly qualified human resource base, and extensive telecommunications infrastructure capable of linking the developing countries with the global centers which produce and store that knowledge. In addition, a series of organizations is necessary – such as consulting firms, information centers, government agencies, academic institutions and mass media – that specialize in identifying, obtaining and processing scientific and technological information which can then be made available to users.

The transformations that the research process has been undergoing highlight the need to be selective in identifying priorities for investment in science and technology, to be rigorous in allocating resources for research in order to ensure that excellence is achieved, and to maintain over time ongoing support for the development of scientific and technological capacities. Experience in other countries shows that between 15 and 20 years of continuous effort is required in order to develop a research capacity that is in tune with the demands of the international scientific community.

At the same time, the incorporation of new technologies into productive and social activities – or technological innovation, as it is known – has
become more complex. It has also markedly accelerated, involving increasingly larger investments and demanding the participation of an ever-wider range of support organizations and a new type of entrepreneurial management that is oriented towards ongoing change and learning. If we are to achieve prosperity and wellbeing within the information society, we must possess a "national innovation system" that is capable of continuously generating greater efficiency, productivity and competitiveness in the main areas of economic activity. It must also be capable of improving the quality and provision of the social services.

Creating a national innovation system implies articulating the activities of those government agencies, private companies and academic institutions that are involved in the generation, import, adaptation and dissemination of new knowledge and technology. The performance of business and of the economy in general increasingly depends on the quality of the interaction of the different organizations that make up the national innovation system.

In this new context of the information society, the government agencies charged with design and implementation of policies on science and technology in developing countries have a very special responsibility. Market forces or social pressures do not, by themselves, lead automatically to the development of scientific and technological capacities. Active policies are required in these fields if a capacity to generate knowledge is to be created together with an environment that is propitious to innovation. This implies, among other things, ensuring coherence between explicit and implicit policies on science and technology. It also implies achieving a convergence between a large number of different initiatives on scientific education, information technology, quality control, physical infrastructure, venture capital and industrial property.

In addition to the changes in scientific research and technological innovation, advances in the fields of micro-electronics and information technologies – which feed into and accompany the transition to an information society – are creating a new techno-economic paradigm: this has revolutionized the way in which goods are produced and services supplied. It has also wrought a generalized change in the way society is organized and human beings interact (Box 5.12). The change from one techno-economic paradigm to another generates opportunities which can be seized by those companies, areas and countries that prove capable of accumulating capacities and meeting the demands of the new paradigm.

We are leaving behind the petroleum-based techno-economic paradigm and moving towards one based on the microchip. This transition is generating uncertainty and a series of fundamental changes in the structure of the world’s economies. By way of illustration, the total value of the shares quoted on US stock exchanges for companies dedicated to technology and information services – which are not involved in the transformation of materials and many of which did not even exist ten years ago – is now several times higher than the total value of the shares of traditional industrial companies which produce material goods and provide services.

At the start of the 21st century, the emergence of the information society, the changes in scientific investigation and technological innovation, and the transition to a new techno-economic paradigm oblige us to give priority to science and technology in any development strategy we design. If we are to advance towards productive transformation and competitiveness, equality and social integration, the sustainable use of natural resources and the proper ordering of our territory, we must acquire the capacity to identify, access and use the knowledge that is available worldwide. We must also create the capacity of generating knowledge in areas that are critical for our national development.

Development of science and technology in Peru

In marked contrast to the demands made by the information society and the transition to a new techno-economic paradigm, the development of Peruvian scientific and technological capacities has been at a standstill for a number of decades. The current situation of scientific research and technological innovation is pitiful and policies on science and technology are deficient. Successive governments have failed to take note of the critical importance of having both an active, well-established scientific community and a national innovation system which would be capable of supporting efforts to achieve well being and prosperity for all Peruvians.

Science and technology policy-making in Peru does not have a long history. The first notions of the need for a policy to develop scientific and technological capabilities date back to the mid-1960s. The National Research Council (CONI in its Spanish initials), was set up at the end of 1968, a few weeks after the military government took power. Despite this early show of interest, CONI languished and failed to attract any significant support throughout the 1970s. Its proposal for establishing a “National Science and Technology System” was never put into
practice: the idea was to group all state-run laborato-
ries, academic research centers and other research
support institutions in a hierarchical and vertical
structure, very similar to the way the armed forces
are organized. Similarly, the proposed National Re-
search Fund never materialized, nor were the research
priorities established by CONI ever adopted. The
universities continued to be the main centers for sci-
entific research, receiving direct support from the
state and, in some cases, from international financial
organizations (chiefly the InterAmerican Develop-
ment Bank) and foreign foundations.

The military government passed a series of
general laws to encourage the development of sec-
tors they considered key for national development.

These laws included provisions to promote techno-
logical research. For example, the General Industrial
Law established that all industrial companies should
contribute 2% of their net earnings to technological
research; if they failed to do this, they had to donate
the same amount to a scientific research institute run
by the state. The former National Institute for Tech-
nical Norms and Certification was transformed for
this purpose into the Institute for Industrial Techno-
logical Research and Technical Standards, or
ITINTEC: it was charged with supervising research
projects carried out by private and state-owned com-
panies, with carrying out its own projects, regulat-
ing the import of technology, promoting the use of
technical norms and quality control. Similar measures
were decreed for mining (with the creation of

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**BOX 5.12**

**Changes in the techno-economic paradigm**

A techno-economic paradigm consists of a blend of tech-
nological innovations and fast-expanding productive ar-
eas linked to a “key factor:” this is the element which or-
ganizes and structures the process of economic selection of
the various different technological possibilities. It also af-
fects the conditions of production and distribution which
prevail in the other branches of the economy. A techno-
-economic paradigm results from the reciprocal interplay
of technological, economic and political forces and takes a
relatively long period of time to articulate itself and to be-
come widespread.

The techno-economic paradigm in force between 1780 and
1840 was based on iron and cotton: these were the key pro-
ductive inputs for manufacture of cotton textiles, steam en-
gines and industrial machinery which, in turn, propelled the
first Industrial Revolution.

Between 1840 and 1880, a second techno-economic para-
digm arose which had coal as its key factor. Coal permitted
steam-powered machinery to become widely used: these ma-
achines in turn gave rise to the expansion of manufacturing
industry.

From 1890 to 1940, steel and electricity generation were the
key factors in a new techno-economic paradigm which gave
great importance to heavy engineering (shipbuilding, large
machinery, hydroelectric plants, transmission lines, new in-
dustrial equipment and so on. It was during this period that
assembly line mass production came into being.

Between 1940 and the 1980s, the availability of cheap en-
ergy — particularly petroleum — was the key factor in the next
techno-economic paradigm. Manufacturing of automobiles
and other vehicles, of consumer durables and household
appliances took place on a massive scale. Huge chemical
processing plants were built and synthetic products devel-
oped using petroleum as their base.

The techno-economic paradigm based on cheap petroleum
still survives but, over the past fifteen years, a new para-
digm has been replacing it, whose key factors are the elec-
tronic microchip and computer software for information
processing. The incorporation into new products of in-
creasingly powerful chips, together with a wide range of
products and new automation and information manage-
ment capacities, are transforming all productive and ser-
vice activities.

New information technologies, especially in telecommu-
nications, are radically changing the way people and or-
granizations interact. The new techno-economic paradigm
based on the microchip and information processing makes
possible efficient small-scale production; it allows prod-
ucts to be changed rapidly in line with demand; and it per-
mits the production of goods tailor-made for individu-
als or for small groups. The emergence of the Internet
and electronic commerce, and the impact they have on the
economy (on stock markets, for example) are altering the
established patterns of competitiveness and giving
rise to a whole new range of productive activities, to an
increase in productivity of manufacturing industry and
to a range of new services.

The capacity to manage information and handle knowledge
is the key to achieving greater efficiency and productivity
within this new paradigm. It is dramatically changing both
the mind-set of managers and the way in which, until a few
years ago, companies and government agencies formulated
policy.

Source: Carlotte Pérez, Technological Change and Opportunities for Development as Moving Target, a paper presented to the UNCTAD X meeting, Bangkok, February 2000; Francisco Sagasti, El futuro de la ingeniería industrial en el Perú, Lima, Peru, 1997.
INCITEMI), telecommunications (which came under INCITEL) and fishing (under the ITP). To these institutions were added various research centers for agriculture and stock-breeding, one for housing, several on health and nutrition and still other research centers related to the armed forces. They all received direct state support.

As a result of these efforts, and even though the National Research Council remained inoperative, resources funding science and technology quadrupled between 1970 and 1980: in the latter year, funding totaled some US$120 million. Nevertheless, this development took place within a highly controlled and protectionist framework: the state played a powerful role but proved incapable of making effective use of the capacity for technological research developed during the decade.

During the 1980s, the state continued to predominate both in financing and execution of scientific and technological research. The private sector, hard hit by the 1982-83 economic crisis and the hyperinflationary chaos of the late 1980s, practically gave up scientific research. In 1981, the National Research Council became the National Council for Science and Technology, CONCYTEC, but it did not receive any additional funding. The sectoral institutes created in the 1970s were neglected and Treasury funds cut by more than 30% in the 1981-85 period. Despite CONCYTEC’s efforts, the government gave no priority to science and technology.

The situation remained the same during the second half of the 1980s, with the notable exception of CONCYTEC whose budget expanded significantly. In 1986, this government agency received US$2 million from the Treasury, in 1987 and 1988 around US$6 million and in 1989 almost US$16 million. The funds went on a large number of small grants (ranging between US$3,000 and US$10,000) to those who presented requests for financing. While this initiative undoubtedly resulted in some interesting small research projects and a great number of publications, the financing requests were not rigorously evaluated and there was no follow-up of the grants.

CONCYTEC’s resources were distributed without any priorities being established and without a strategic orientation having been decided upon. The small size of the individual grants meant projects did not have any significant impact on the development of Peru’s scientific and technological capacities. Meanwhile, the university research centers and state-run sectoral institutes remained unattended. It is estimated that, between 1985 and 1990, the already inadequate national budget for science and technology was reduced by at least half. Hyperinflation between 1989 and 1990 exacerbated the situation even further. In 1990, CONCYTEC’s budget was cut to a tenth of its level of the year before, while salaries accounted for 90% of the budget in state-run research institutes. The majority of the best-qualified personnel left to work overseas.

At the start of the 1990s, the installed capacity in scientific and technological development had been reduced to its minimum expression and the fact that it survived at all was only thanks to the dedication and personal effort of a number of individual researchers in universities and a few public sector institutes. CONCYTEC lost its autonomy and was taken over by the Ministry of Education. Spending on scientific and technological research was maintained at around US$30 million to US$35 million a year: or the same level in the year 2000 as thirty years before. By contrast, South Korea – which had spent around the same amount as Peru towards the end of the 1960s – raised its investment in science and technology to US$9.5 billion in the mid-1990s: within the space of a generation it became a scientific and technical powerhouse.

An emergency plan

As the 21st century begins, Peru should declare science and technology in a state of emergency. A plan of action is needed to revitalize scientific research and promote technological innovation. This plan should be drawn up as quickly as possible by a representative group of leading figures from the scientific and technological community, submitted to a process of consultation and dissemination so that consensuses can be reached, and immediately implemented with backing from the highest levels of Peru’s executive and legislative branches.

In the field of science and technology, there is no substitute for the leadership of the state. The role of the public sector in the early stages of scientific and technological development is irreplaceable, whether it be in design of policies and strategies, in financing or in the creation of a human, financial and physical resources infrastructure. Academic institutions, private companies and civil society organizations – universities, research centers, professional and scientific associations, non-profit-making organizations – should all participate actively in the effort. But that does not exempt the state from its responsibility.

The emergency plan, which should run for five years, embraces three sets of initiatives: the creation of new institutions dedicated to drawing up and implementing policies for scientific research and
technological innovation; financing the development of scientific research and technological innovation capacities; and defining the priority areas where resources and efforts are to be concentrated.

As a first measure, CONCYTEC, must recover its full autonomy and capacity for action; it should be placed directly under the Prime Minister’s office. An autonomous executive secretariat should be created and the National Fund for the Support of Scientific and Technological Research established as its financial arm. At the same time, technological innovation directorates should be set up in each of the four principal ministries to be established in line with the reform of the executive branch proposed in Chapter 7. These directorates will be charged with promoting the creation of innovation systems in their respective areas of competence. The first task for the new CONCYTEC and the technological innovation directorates should be to draw up the short term the emergency measures to be adopted, to design a medium-term strategy for scientific and technological development and organize a process of consultation and dissemination with the objective of securing a broad national consensus: this would support the emergency measures and the medium-term strategy.

Secondly, scientific and technological research must be supported by creating institutional conditions and capacities. The objectives of the emergency plan should include a ten-fold increase in investment in science and technology over a period of five years in order to reach a figure of around US$350 million a year by the year 2005. For this to happen, a series of financing mechanisms will have to be established, Treasury resources increased and funding channeled from international financial organizations and international cooperation agencies. At the same time, it will be necessary to create a network of centers of excellence in areas designated as priorities, and a high-level program for human resource training set up for the duration of an emergency plan, aimed at sending around a thousand young Peruvian overseas each year for training.

The human resource training program should also help create the conditions to bring back to Peru – at least on a temporary basis – a significant number of highly-qualified Peruvian scientists and professionals who are currently working abroad. In this sense, Peru should learn from the experience of the United National Development Program on “transfer of knowledge through expatriate nationals” or TOKTEN. This scheme, which was started at the end of the 1980s, has shown that specialists who emigrate and achieve success in other countries are often ready to provide technical assistance and scientific support to their countries of origin, particularly for relatively short periods of time.

Through the TOKTEN program, more than 400 specialists have each year served the governments and public and private institutions of their native countries. Supported by the United Nations, the program operates through volunteers who help out for periods of three weeks to three months. Countries such as Turkey, India and Pakistan have taken advantage very efficiently of the program. The scientists and professionals donate their services, frequently with the support of their workplaces, while the United Nations and local organizations cover the costs of transport and lodging. These professionals have helped to raise the quality of scientific and technological research, to improve the application of technology in productive and service activities, to create new markets for local products, and to disseminate local experiences which could be of interest in the international arena.

The support fund for scientific and technological research (Box 5.13) and the fund for postgraduate studies both inside Peru and abroad, should be the principal financial instruments to set the emergency plan in motion. As time goes on other, specialized funds should be created to promote technological innovation in the productive and service sectors. Among other financing mechanisms, these funds could provide counterpart grants and soft loans and make venture capital-type investments. These specialized funds should enjoy the active backing of the private sector, international financial organizations and international cooperation agencies. As a result of these initiatives, investment in science and technology should rise within five years to reach at least 0.5% of GDP.

Thirdly, we must define as swiftly as possible the areas where emergency plan efforts are to be concentrated. Even though areas and issues should be selected on the basis of a broad consultation process, the priorities for the emergency plan emerge from the development strategy laid out in the various chapters of this book. A first attempt to identify priority areas comes up with the following:

- Biotechnology, taking advantage of the opportunities of biodiversity and all areas of knowledge linked to the development of related capacities: the aim is to add value to Peru's vast and diverse ecology, its species and its genetic base.
- The extraction and sustainable use of renewable and non-renewable natural resources, with special emphasis on fishing, forestry, mineral and hydrocarbons resources.
- Information sciences and technology, with emphasis on access, modification and utilization of technologies that are available internationally; and scientific and technological activities associated with micro-electronics, telecommunications and their applications in Peru's social and economic development.

- Technologies for industrial development, especially those with forward and backward linkages that provide added value to natural resources (for example, machinery and equipment for agriculture, mining, fishing and agriculture; metals transformation; agroindustrial processing; uses for wood).

- Technologies for the provision of basic social services, particularly those linked to health, nutrition, sanitation, education, housing and the promotion of sustainable ways for those living in the poorest and most remote areas of Peru to earn a living (Chapter 4).

- The selective salvaging and enhancement of traditional technologies: these should be utilized as the basis for development of new productive activities.

To these priority areas and for the duration of the emergency plan should go the bulk of the financial resources available and the efforts directed at developing science and technology. However, the projects to be carried out will require the backing of a series of scientific disciplines which should be an integral part of this plan. It will also be necessary to assign a significant tranche of funding to these disciplines. For example, molecular biology, genetic engineering, ecological economy, analysis of ecosystems, solid-state physics, metallurgy, mathematical statistics and other disciplines should receive financing in proportion to the contribution they make to the priority areas. Finally, a smaller percentage of the resources from the Support Fund for Scientific and Technological Innovation will go to support proposals accepted exclusively on their scientific merits, even though they have no links whatsoever with the areas designated as priorities.

As an additional measure, it is necessary to create a system of indicators on scientific and technological capacity and performance so that policies appropriate to Peru's current situation can be designed and implemented. These indicators should, *inter alia*, track the evolution of the number and academic level of the researchers, amounts of funding and how it is distributed, and the number of institutions and projects involved. The indicators should also provide information on the results and impact of the scientific and technological research carried out. This system of indicators should be expanded to include information on the technological modifications and innovations made by productive and service companies.
Technological innovation systems

In a world that is ever more complex in economic, social and political terms (Chapter 2), scientific and technological change is increasingly rapid and unpredictable: this makes it essential for companies to be capable of learning and adapting with flexibility and efficiency to the demands of a changing environment. This will be possible only if we can establish innovation systems capable of articulating all the institutions and organizations that contribute to the development and dissemination of new technologies. The design and execution of government policies for technological innovation should be directed towards encouraging the convergence of the various initiatives emerging from the economic, social and political agents involved in creating, importing, adapting, disseminating and absorbing knowledge, and in the provision of the services, capacities and material resources associated with the process of technological innovation.

In Peru, we are still far from creating innovation systems whether in the national, regional or sectoral arena: this is because we do not yet have the full range of institutions required, not have we set up the networks that are necessary to link them together. Starting with priority sectors and specific regions, innovation systems should be built up gradually, by promoting the creation of productive enterprises, government agencies to design and implement policies, technological research centers, organizations for the formation of human resources, suppliers of technical equipment and services, finance institutions, information centers, professional associations and other institutions associated with technological innovation.

Similarly, we need to establish mechanisms through which these bodies can interact, in order to stimulate the flow of knowledge through strategic alliances between companies; contracts and agreements between companies, universities and both public and private research centers; local and foreign finance entities; companies and research centers; and outreach programs which link private businesses with government agencies for technological information and with consulting firms. This needs to be complemented with the provision of physical infrastructure to facilitate the exchange of knowledge; it includes technology parks and telecommunications networks, as well as measures to stimulate training and mobility of professionals and technicians. As these innovation systems for specific regions and sectors begin to emerge, it will be possible to link them together to create a national innovation system. This is a task that could take some twenty years.

In the urgency to create innovation systems for the priority economic and social sectors, we should not forget that they cannot be established by decree. The role played by public policy is essentially one of orientation, promotion and coordination — the creation of a favorable environment that stimulates innovation. In addition, explicit policies on innovation should be in harmony with the other public policies that contain implicit directives on innovation. In this way, all efforts will go in the same direction.

The experience of the newly industrialized countries of SouthEast Asia shows how the capacity to learn and innovate through access to sources of knowledge available beyond the national boundaries, the import of machinery, equipment and designs and their adaptation to local conditions allowed these countries to rapidly develop superior technological capacities, experience in innovation processes and, in business, technological management skills. This capacity for learning allowed them to close the gap between themselves and the industrialized countries in the space of thirty years: it also allowed them to avoid many of the errors and costs incurred by the industrialized countries in attaining their current levels of productivity, efficiency and competitiveness. For this reason, all obstacles to access and import of technology — and especially information technology — should be eliminated for priority sectors. At the same time, the adaptation and absorption of foreign technologies should be aggressively promoted.

It is extremely important to be able to have venture capital funds to encourage technological innovation and support companies that are developing new products or processes. Even though venture capital is critically important when a country already possesses a solid base of scientific and technological research activities, the initial design of innovation policies should contemplate financial support to innovative companies. To achieve this, we will need to pool the contributions of the banks — domestic and foreign —, state entities such as the Development Finance Corporation (COFIDE), international organizations such as the International Finance Corporation (a World Bank affiliate) and the InterAmerican Investment Corporation (affiliated to the InterAmerican Development Bank). Venture capital funds will make it possible to grant loans with reasonable interest rates, terms and guarantees. They will also provide direct capital contributions to encourage innovative companies.

Finally, the creation of a national innovation system should go hand in hand with a comprehensive reform of the education system, placing empha-
Public policies to encourage technological innovation

Over the last thirty years, a series of policy instruments has been developed to promote technological innovation and the creation of innovation systems in the productive and social sectors. It can be seen that policies have evolved from the days when the State was the principal proponent; now the public sector promotes and facilitates initiatives put forward by private companies, academic institutions and bodies that provide technical services to the productive sector. This evolution can also be seen in the creation of innovation systems for the provision of social services, where the State has made room for a wide range of civil society organizations, academic centers, local government bodies and even private companies.

Among the principal policy instruments are:

- Creation of “technology parks” by central, regional or municipal governments: these have appropriate physical infrastructure (transport, energy telecommunications) and technological support services. They can act as nuclei around which innovation systems can cluster.

- Creation of “technology business incubators” by universities and other centers of higher education; they are oriented towards specific sectors and are capable of providing services and back-up to entrepreneurs who have decided to enter new fields. Provision of technical assistance and support for business and technological management are among the main services which these incubators should offer.

- Promotion of clusters and networks of small and medium-sized companies in specific sectors and locations: these should specialize in clearly defined aspects of productive processes, exchange products and services in a

Technological pluralism and traditional knowledge

The introduction of new technologies cannot be carried out in the same way in all productive sectors: this is especially true in developing countries. In every sector there are productive units and companies with varying levels of productivity, some employing technologies which are less advanced and appropriate to local conditions than others: they then compete against each other, employing a range of strategies which frequently compensate for their technological disadvantages. The co-existence of different technological “rootstocks” which have been grafted onto companies at different stages in the evolution of a productive or social sector bears witness to the complexity of technological management in countries like Peru.

In general, Peru needs to raise the average productivity levels of its companies, particularly if they are to move into the international marketplace or stand up to the competition represented by imported products. For example, the highly uneven levels of productivity in the different segments of the agricultural sector make technological extension programs essential. This does not mean, however, that the technology, practices and procedures introduced in the productive units should be uniform. On the contrary, the differences in the economic, biophysical, social and cultural environment of each requires a variety of technological responses which are appropriate to local conditions and capable of co-existing for very many years.

This brings us to the problem of managing technological pluralism and utilizing technologies that are appropriate to a country that has an enormous variety of ecosystems (Chapter 6). Full advantage should be taken of the benefits offered by the wide range of technologies currently available: among these we must include traditional technologies which have been evolving over centuries.

If traditional and modern technologies are to be combined, it is necessary to put productive or social units that work in a traditional manner (such as businesses, communities, cooperatives, associations, ethnic groups and families) in contact with professionals and experts in the field of scientific
highly intensive manner and share a series of support services in order to achieve greater individual and collective efficiency.

- Promotion of links between Peruvian businesses and large international companies that purchase local products in order to place them in the global marketplace: these buyers often provide technical and financial assistance, help in the design and quality control of products, and also provide support in marketing and management.

- Promotion of strategic alliances between Peruvian companies in key sectors for the transformation of natural resources, mainly those with productive linkages forward (processing of resources) and backward linkages (provision of inputs and equipment): this will create business nuclei capable of competing in international markets.

- Establishment of venture capital funds and financial mechanisms to facilitate funding and technological innovation, mainly through the private banking system and with the support of government agencies and international financial organizations.

- Creation and promotion of specialized training programs for workers and professionals in productive and social sectors considered as priority; also masters programs in business administration and innovation.

- Promotion of quality control and the use of internationally recognized standards and technical norms, in order to guarantee that products from Peru are appropriate and acceptable in the international markets. This should include norms on environmental protection, which are acquiring greater importance in trade globalization (Box 5.7).

- Measures to facilitate the import of technology, and its modification and absorption by local companies in priority sectors. In particular, all the obstacles to import of equipment and programs linked to information technology and telecommunications must be eliminated.

- Measures for the protection of intellectual property: this has the twin aim of stimulating the import of technology and protecting locally generated technological knowledge, with particular reference to the use of natural resources and biodiversity.

These policy instruments indicate the range of possibilities that are available to encourage the creation of innovation systems. They also illustrate the central role which the state plays in establishing an environment favorable to technological innovation.

and technological research. This will permit the introduction of modern technological elements into traditional practices, thereby improving them. It will also encourage the adoption and dissemination of combined technologies, whose advantages should be demonstrated through pilot programs.

Even though Peru has relatively little experience in this field, and what there is has not been systematically documented, combined technologies have been successfully used in other countries. For example, traditional methods of design and manufacture in the textile industry have been complemented by the use of computer-aided design (CAD); the introduction of photo-electric cells in traditional looms has ensured uniform quality in weaving; scientific research into fermentation processes has paved the way for improvements in biomass use in tropical areas; scientific and technological research has helped improve farming methods and the design of machinery for use in mountain areas; and the application of modern engineering techniques and computers has brought improvements in the design and manufacture of electricity generators, including windmills and devices powered by hydraulic energy. In addition, modern and traditional technologies could also be combined for use in some areas of social services provision – generating employment and using high technology at low cost (Chapter 4, Box 4.16) – and in sustainable livelihoods (Chapter 4, Box 4.17).

Peru must place emphasis on the recovery of traditional technologies, many of which date back to the pre-Hispanic period. For example, there are proposals for the recovery of the terracing systems in some areas of Cajamarca: they could be identified and classified by satellites using remote observation techniques, and they could be irrigated by sprinkler and drip technology, controlled by micro-processors and electronic sensors. Another interesting example has emerged from archeological research by experts in microclimates and by agronomists in the high plateaus of the southern Peruvian Andes: a system of cultivation which alternates raised beds of soil with furrows below ground level where water accumulates. In pre-Hispanic times, this system allowed crops to be grown on hundreds of thousands of hectares which are today not considered appropriate for farming.

If technological pluralism is to be introduced and modern science and technology linked to traditional knowledge and practice, then the latter must be identified, classified and studied. It is also essential that we salvage and protect the immensely varied traditional know-how on land management and
the properties of native plants (to mention just two examples) that survive in many different cultures and regions of Peru. Traditional knowledge of the properties of certain local biological resources – such as "cat's claw" and sangre de grado – has allowed Peru to develop products that are now marketed abroad. However, they must be protected by intellectual property legislation so that the benefits deriving from their exploitation can be enjoyed by the communities that originally developed them.

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The main objective of the strategic direction on management of the environment, natural resources, science and technology is to ensure that Peru exploits, in a sustainable manner, the extraordinary wealth which nature has bestowed on it, as well as seizing the currently emerging opportunities offered by the information society. The benefits to be obtained by exploiting nature's capital and making use of the store of global knowledge should be applied to transform our productive structure to make it more efficient and competitive. The aim is to set in motion a sustainable process of accumulation of capital of all types which will result in greater integration, equality and social justice.

The sustainable use of our natural resources, the tapping of Peru's characteristic biodiversity and the reduction of pollution demand that we move towards the resource administration and eco-development approaches. This transition should be accompanied by explicit and implicit environmental policies which are capable of achieving a harmonious blend from the various demands coming out of different sectors of Peruvian society.

Finally, the challenges of the information society, together with the profound changes undergone by scientific and technological research in the international arena, are in marked contrast with the puny efforts made by Peru to develop its scientific and technological capacities. An emergency plan is required if we are to reverse these negative trends that – in spite of noble but isolated efforts by a handful of pioneers – have dragged Peru down to one of the bottom positions in Latin America in terms of the capacity to generate and utilize scientific and technological knowledge.
CHAPTER SIX

TERRITORIAL ORGANIZATION
AND PHYSICAL INFRASTRUCTURE
INTRODUCTION

The strategic direction on territorial organization and physical infrastructure is the fourth and final set of strands in the Peruvian social fabric that must be re-woven during the first twenty years of the 21st century. Its components are the organization of physical space, with the aim of creating appropriate conditions for the better utilization of Peru’s national territory and the development of its regions; planning for urban and rural development, so as to achieve a balance between growth in the cities and the countryside; construction and maintenance of physical infrastructure, which should link up all Peru’s population centers; and the development of telecommunications, a basic condition for development in a world that is increasingly globalized.

A balanced distribution of population, production and political power will permit a far more effective utilization of our national territory and its resources. If we are to recognize, assign value to and take advantage of our environmental diversity, we first need a profound knowledge of the way our varied geographical, economical and cultural spaces are organized. We need to rescue and upgrade the rich traditions of territorial management that are rooted in our pre-Hispanic history (Chapter 5 and Box 6.1), enriching them with the contributions modern science and technology can offer.

TERRITORIAL ORDERING

The first component in this strategic direction concerns the need to bring proper order to the uses of Peruvian living space. As a starting point, we need to review and evaluate the various existing concepts of Peruvian geography and to classify our national territory. This is a fundamental step toward articulating a shared vision and a national consensus on settlement and utilization of our lands. In turn, this vision and this consensus will provide the bases for a policy on territorial organization, for the decentralization of the apparatus of state, and a definition of the regions based on criteria that are linked to the

BOX 6.1

Control of ecological levels in pre-Hispanic Peru

From pre-Hispanic times, the Andean peoples designed ways of ordering their territory that allowed them to control a series of ecological levels: this permitted them to access many and varied resources and to develop a range of economic activities. On of the best-documented examples of the vertical control of ecological levels is that of the Lupaca kingdom, an ethnic group which has its origins in the high plateau ("altiplano") between Peru and Bolivia.

The hallmark of the Lupaca system was control of ecological levels articulated in the form of "vertical archipelagoes." Population centers in the Lupaca kingdom were located some 4,000 meters above sea level, in the basin of Lake Titicaca: these were simultaneously farming centers, storehouses for basic foodstuffs and large-scale pastures. But, in addition, the Lupacas controlled unconnected peripheral areas located at considerable distances from the population centers. These "colonies," permanently populated by families who maintained their original ethnic rights, were situated on both the eastern and western sides of the altiplano. On the western side, the Lupaca extended their control as far as the coast, where they grew corn and cotton and collected guano, and into the Pacific Ocean, from which they extracted fish and shellfish. To the east, they reached the high jungle, where they sowed coca and extracted wood.

In this manner, the Lupacas controlled different ecosystems located at different altitudes: this meant they could both diversify their crops and specialize. The criteria for territorial ordering assumed that communications, trade, water management and population distribution were organized "vertically", in accordance with the specific characteristics of each ecological level. The strategy was so successful that the early Spanish chroniclers were highly impressed by the wealth and influence of the Lupaca people, and by their skill in adapting to such extreme geographical conditions.

It should be noted that it is only since the mid-20th century that the importance of territory has been recognized in the political and economic organization of the Andean peoples and its potential value for modern planners appreciated.

Selecting, harmonizing and integrating the categories of territory are tasks for the central government and for academics, professional associations, local governments, the private sector and civil society organizations in different parts of the country.

A strategy for territorial organization should seek to take advantage of favorable local conditions for the production of goods and services, the sustainable use of natural resources and a better articulation of the activities of different regions. It should also contribute to achieving the objectives of integration, equality and social justice. In addition, territorial ordering must establish guidelines for urban and rural planning, orient public investment and promote private investment in works of physical infrastructure. In this way, the process of regionalization will be upheld by the creation of integrated economic spaces that are capable of stimulating a better distribution of both population and wealth (Box 6.2).

Peru’s difficult geography (Figure 6.1) underscores the importance of a physical (highways, railroads, irrigation systems, energy, sanitation) and telecommunications infrastructure which allows the national territory both to be adequately occupied and in efficient communication with other countries. In particular, it is imperative to ensure that all Peruvians have easy access to world information networks: this means having a quality, low cost telephone service. The type and size of infrastructure required can be defined once there is a strategy for settlement and territorial management in place. This will encourage a gradual redistribution of the population throughout the country. It will help reduce the stifling weight of Lima in the economic and political arena and will increase the participation of medium-sized and small cities and towns in all aspects of national life.

Environmental diversity and territorial classification

Politically and administratively, Peru is a centralized state divided into 24 departments, 194 provinces and 1,812 districts, as well as one Constitu-

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**BOX 6.2**

**National commission on territorial organization**

In order to resolve conflicts over classification and uses of territory, a national commission on territorial organization should be created. Its objective would be to design strategies and policies to assign value to the diversity which is characteristic of Peru’s geography, and to seek a more appropriate and rational use of our territory.

This entity would report to the Prime Minister’s office and would be charged with establishing general criteria for defining the various uses of the national territory. It would systematize, order and harmonize existing classifications. And it would propose a legal and administrative framework to regulate the type of productive and service activities to be carried out within the national boundaries.

In addition to these basic functions, the commission would:

- Define basic economic, ecological and political criteria so that different classifications of the national territory can be harmonized.
- Define criteria for a economic and social evaluation of Peru’s infrastructure needs and the conditioning of its territory.
- Promote the institutional conditions and mechanisms that will lead to a definition of political regions, taking account of physical, ecological, economic, cultural, geopolitical and other relevant factors.
- Propose the drawing up of cadasters and implementation of geographical information systems.
- Suggest criteria for the design of settlement policies for different parts of the national territory, including border areas.
- Propose criteria for planned urban growth, considering the ecological, economic and social problems and challenges posed by current urban development, as well as the geopolitical aspects of internal and external articulation for Peru and its regions.

The conclusions which this entity arrives at will be of great importance in supporting the decentralization and regionalization process, in defining priorities for public investment and in setting guidelines for private sector investment. Once it has completed its task, in a maximum of three years, this commission should cease to exist: other public entities would then have to take over those functions which need to continue.
Territorial relief map (transversal sections)

Section 1 - Bayovar (6° 10' approx.)
Section 2 - Samancos (9° 11' approx.)
Section 3 - Callao (12° 8' approx.)
Section 4 - Puno (16° approx.)

Source: Instituto Geográfico Nacional
Prepared by: Agenda: PERU
Ancient Peruvians developed a knowledge of agriculture and the climate that led them to an extremely complex concept of their Andean territory. The 17th century chronicler Bernabé Cobo made the following summary of the way the native peoples classified the high Andes:

"Since the variety of temperatures that are experienced in the Peruvian sierra is a result of some lands being higher and farther from the center of the earth than others, it is necessary that we divide the entire sierra into a series of steps or terraces, ranged according to the height and qualities of each. With this division, we are able better to perceive the differences in temperature which characterize this sierra that, taken from its highest peaks to its lowest-lying and deepest valleys, it seems to me we can divide into six steps, terraces or climates according to the plants which grow – or do not grow – in each. This, I believe, is the best way that can be found to understand the qualities of each step and each climate."

Basing himself on altitude, relief, climate, flora and fauna, Javier Pulgar Vidal proposed the existence of eight natural regions within Peru’s frontiers:

- The chala – or coastal – region, between the sea and 500m above sea level.
- The yunga region, lying between 500 and 2,300m above sea level on the western or maritime side of the Andes and between 1,000 and 2,300m above sea level on the eastern side (the “fluvial yunga”).
- The quechua region, occupying both the eastern and western slopes of the Andes, at heights between 2,300 and 3,500m.
- The suni region, also on either side of the Andes, at heights between 3,500 and 4,100m.
- The puna region, ranging between 4,100 and 4,800m above sea level.
- The janca region, corresponding to the high Andean mountain peaks over 4,800m, generally covered by snow and ice.
- The rupa-rupa or high jungle region, in the foothills of the eastern Andes at heights of between 400 and 1,000m above sea level.
- The omagua, Amazon or low jungle region, lying between 80m and 400m above sea level.

These classifications are quite complex and categories sometimes overlap. Each of these classifications is based on the economic use and the administrative division of Peruvian territory.

A recent proposal for dividing Peru into productive zones is based on integrating the physical, climatic and ecological factors that directly influence production in any given space. Under this proposal, the sierra is no longer seen as one large unit, but rather is subdivided solely along general criteria of altitude and type of vegetation: it also takes account of the productive potential of the different areas that make it up (Box 6.4).
Peru's natural regions
(according to Javier Pulgar Vidal)

- Coast or Chala
- Yunga
- Quechua
- Suni
- Puna
- Janca o cordillera
- High jungle
- Low jungle

Source: Instituto Geográfico Nacional
Prepared by: Agenda: PERU
BOX 6.4

Agro-ecological zones and productive management of the Andes

Taking account of the variation in latitudinal relief of the Andes, the orientation and the local availability of water, expert Mario Tapia classifies the high Andes into several different categories. In his view, there is a large region (the sierra) which comprises some six subregions (western, central, south-central, “altiplano”, western arid and eastern humid). These in turn are divided into four agro-ecological zones he calls semi-humid quechua, low hillsides, high hillsides and “jalea.”

At the specific level of local microclimates, Tapia defines homogeneous production zones: these are the most immediate indicator of the productive possibilities of a given area. For example, the subregion “altiplano” is divided into three agro-ecological zones (circunlacustre or lakeside, suni alta and janca): these in turn are characterized by their own, homogeneous production zones (hillsides for farming, raised bed farming, marshlands, pastures with shallow or deep soil cover, hillocks, terracing and so on).

Under normal conditions, these homogeneous production zones are associated with specific agricultural uses. They may also serve for reference in the event of climatic fluctuations that may disturb the different ecological niches: this will allow for the planning of production even under changeable conditions. Recent research suggests that agricultural planning of this type was being practised with some success in the Andes at the time of the Conquest.

Source: Mario Tapia, Ecodesarrollo en los Andes altos, Lima, Fundacion Friedrich Ebert, 1996.

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BOX 6.5

Hydrocarbons exploitation and environmental protection

One example of the inconsistencies in criteria for territorial organization is the granting of concessions by the Mines and Energy Ministry for exploitation of hydrocarbons in the jungle involving areas defined as national ecological reserves. In 1991, Texas Crude of the United States negotiated the operation of Block 61 in the Pacaya Samiria reserve: the fact that the Block covered 75% of the total area of the reserve was not taken into consideration. The ministry argued that this should not impede development of the hydrocarbons deposit or, alternatively, that a compensation payment should be considered in order that the concession be effectively granted. When these negotiations became public, there was strong opposition from environmental organizations, indigenous communities, professional guilds and international organizations, as well as from the regional government and the Agriculture Ministry. This convinced Texas Crude to give up the project: it did not sign the contract. Something similar happened with the concession for Block 78, located in the Tambopata Candamo reserve, which was granted in concession to Mobil.


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Conflicts in the use of space

Productive activities – such as agriculture, mining, industry, fishing and tourism – have specific requirements for the use of space and different impacts on ecosystems. They also interact in different ways on a given territory. There exists great confusion over the limits established by criteria for agricultural development, minerals and hydrocarbons exploitation, archeological conservation, nature conservation, urban development, road-building, national security and so on. Without a framework of reference that defines criteria for territorial organization, it is highly probable that conflicts over use of space and resources will become more acute (Box 6.5).

By way of illustration, the area available for agriculture in Peru is relatively small. There are around 7.6 hectares of land suitable for farming (6% of the national territory), of which only a third is actually used. Often, the little farming land available in one area must compete with other economic activities, such as construction, mining and industry. For example, “the sowing of cement” in the scarce farming lands of the narrow coastal valleys – and especially within the boundaries of metropolitan Lima – has displaced agricultural activities. Paradoxically, this has stimulated initiatives to transform desert areas close to the cities into farming land, using treated sewage for irrigation. It would have been more logical to build houses on the desert land and preserve the farming land.

In the same way, the areas devoted to exploitation, treatment and refining of minerals often overlap or adjoin agricultural or grazing lands that are the mainstay of local communities and of extreme importance to the local economy. If such activities are not to be affected, soil, water and air pollution associated with mining must be eliminated or reduced to an absolute minimum. Something similar happens with hydrocarbons exploitation, indiscriminate forestry extraction, industrial activity in the jungle and the processing of fish products.

Watersheds and territorial ordering

Management of the national territory on the basis of watersheds – the areas where water is captured and concentrated – has proved to be one of the most effective ways of organizing ecosystems and productive activities for many regions of Peru. This approach considers the river basin as a basic territorial unit and proposes the integral administration of its productive activities and services. If such an approach is to be implemented, some basic stud-
ies will be needed to map out the physical and ecological characteristics of each basin and its capacity to sustain economic activities. It will also be necessary to prepare and execute plans, programs and projects for public and private investment for the exploitation of resources. Also, planning for the maintenance, conservation and sustainable management of the productive and service activities which are to be carried out.

Successful territorial management on the basis of watersheds is rooted in the commitment and the participation of the social, political and economic agents of the area involved: if this is to come about, open fora must be established and procedures for decision-taking defined. This commitment should take the shape of an entity with a high degree of autonomy, adequate legal back-up, financial resources and the capacity for taking decisions on the use and resources of the riven basin (Box 6.6).

The integral management of watersheds is an extremely useful mechanism for the for the coastal and inter-Andean valleys. But it is more difficult in the jungle, since here river basins spread over a vast area. Similarly, dealing with large cities associated to river basins – especially metropolitan Lima – requires not only criteria relating to water use, but also to management of sizeable populations. In addition, it has not yet proved possible to articulate integral management of river basins with the processes of territorial organization, decentralization of the state and economic regionalization.

Consolidation and articulation of economic spaces in the regions

Throughout Peru’s history, there have been different proposals on the spatial organization of the nation’s economic, social and political processes. In the pre-Hispanic period, organization of space relating to local activities was largely respected: these activities were articulated through exchange mechanisms which sought to complement resources and products. During the Colonial period, Peruvian territory was divided up under administrative and tax-collecting criteria, first by magistracies (“corregidores”) and later by “intendencies”, both of which enjoyed scant autonomy, since all power was concentrated in central government. Toward the end of the Colony, the Spanish Crown attempted to reorganize Peruvian territory taking account of the location and availability of resources, but this project was left incomplete after Independence. At the start of the Republic the intendancies were transformed into departments and, throughout the 19th century, a number of different schemes for Peru’s political and

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**BOX 6.6**

**Watershed management**

The first Ministry of Agriculture watershed management program dates back to 1974. In 1980, with support from USAID, the National Soil Conservation and Watershed Management Program was set up; it was modified several times until, under a slightly different title, PRONAMACHCS was created in 1988.

The objective of this program is to design and establish a series of policies, strategies and technical and administrative actions with the aim of rationally exploiting Peru’s natural, human and capital resources via integral watershed management and soil conservation. The principal functions of PRONAMACHCS are to:

- Propose and reach agreement on formulating and executing policies and strategies linked to the development of watershed management and soil conservation.
- Agree, advise and execute – together with public and private institutions, regional and local governments and grass-roots organizations – actions pertaining to watershed management and soil conservation, and to evaluate the application of those actions.
- Formulate, propose and agree plans and projects which make possible watershed management and which are directed towards laying the physical and social foundations that underpin rural development.
- Promote new levels of awareness and encourage the reaching of agreements with grass-roots organizations over the creation of models for watershed management in the short, medium and long term.
- Continuously update the national inventory of terraces and traditional waterworks, with the aim of proposing and executing actions of rehabilitation and maintenance.
- Draw up “technological packages” of a technical and social nature, developing strategies for training and dissemination that will allow them to be implemented in watershed management; always vigilant for the proper use of human, financial and economic resources.
- Supervise the carrying out of agreed actions to be implemented as a result of the watershed management plan, again ensuring the proper use of economic, financial and human resources.
- Review and emit an opinion on technical documents related to watershed management and soil conservation that are proposed by the Vice-Ministry of Natural Resources and Rural Development and the National Commission for the Program.

administrative division tried out. But these always had a centralist perspective. In the 20th century, there have been various proposals to divide up the territory using criteria that are geographic and ecological (transversal regions), geopolitical (economic nuclei and areas of influence) or political (the twelve regional governments set up at the end of the 1980s and eliminated in the 1990s).

For many long years, regionalization projects were proposed primarily by the central government or by Lima-based parliamentarians and experts. In the 1990s, however, a series of initiatives emerged from Peru's interior. Box 6.7 summarizes some of these proposals and shows a clear evolution toward the view that regionalization is a process of integration of economic and social spaces rather than a parceling out of territory on the basis of political and administrative criteria. Nevertheless, central government—which by the end of the 1990s enjoyed a level of power concentration rarely seen before—appears reluctant to respond positively to the need for recognition, consensus-building, delegation of functions and financial support.

However, in the international context of a fractured global order (Chapter 2), there are a number of factors which suggest that regions, rather than nation states, will become the chief protagonists in the international battle for production and supply of services. The technological and scientific revolution, the demands for greater political autonomy and the trend towards economic liberalization and deregulation mean that subnational geographical spaces are becoming the chief foci of articulation for the transgovernmental, transcorporative and transassociative networks that are spreading out all over the world. If they are to assume this new role, regions will need to broaden their social, economic, political, technological and cultural relations and transform themselves into centers capable of attracting all sorts of resources.

New concepts of regional development underscore the importance of properly delimiting re-

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**BOX 6.7**

**Recent experiences of regional planning**

Throughout the 1990s, in different parts of the country, some local governments, institutions and civil society organizations came together to promote development and regional and local governance. Encouragement and support for similar experiences is very important if we are to achieve sustainable and decentralized development for Peru. Among the most interesting cases of regional planning are those of Piura and Timbres (formerly the Grau region), the so-called "southern micro-region" (Arequipa, Cusco, Madre de dios, Moquegua, Puno and Tacna), Cajamarca and Amazonas.

**Piura and Timbres.** There have been three experiences of provincial planning and co-management of local development: those of the district government of Morropon (started in 1994); the provincial government of Sechura (1995) and the provincial government of Morropon-Chulucanas (dating from 1996). In these areas, a group called Iniciativa has also played an important role: it comprises individuals from a series of regional institutions and organizations (local governments, universities, churches, research centers, production centers and so on) who, since 1994, have been holding a series of workshops on regional prospects and strategic planning. Their work culminated in the publication and dissemination of a development proposal for what subsequently became — in 1997 — the Grau region. From 1998 onwards, the Transitory Regional Administrative Council, or CTAR-Piura, picked up on these proposals in a process of regional strategic planning which came up with a vision of the region in 2010. The core proposals are for:

- Implementation of an integral, sustainable and equitable process of human development
- Integration of the territory, infrastructure and modern strategic services (science and technology, telecommunications, information technology, irrigation systems and energy).
- Organized civilian population, integrated socially and with good information and communications facilities. Coverage of basic needs.
- Sustainable environmental management policies and culture. Risk prevention and management to allow co-existence with recurrent environmental phenomena.
- Development of capacity of negotiation with different social, political and economic actors in order to attain a consensual development of the region.
- Competitive businesses that are solid and stable, integrated into networks and forming chains of value added, based on the comparative advantages of the region.

**Southern micro-region.** The Federation of Southern Chambers of Commerce has initiated a process of debates, consultations and development proposals for the departments of southern Peru. The idea is to generate a collective vision which could become the framework for the micro-region's regulation and for promotional activities in the short and medium term. Among the principal strategic directions are:
Regional economic spaces, as well as their need to have their own, autonomous visions and planning procedures. Among the elements which help in the creation of a successful region, it is possible to identify the following:

- **Competitive products and services** for domestic and international markets: these should be based on dynamic comparative advantages, able to adapt rapidly to changes in demand and the identification of specific markets or "niches." This requires close collaboration between economic agents, regional authorities and civil society organizations if we are to confront the difficult task of continuously developing new products and services for increasingly competitive markets and ever more demanding customers.

- **Private companies** capable of producing goods and providing services that can compete on price and quality, adding value to the region's natural resources and to imported raw materials and intermediate products. These companies should initiate a process of capital accumulation within the region that will permit them to finance the expansion of their activities; they should have recourse to financing outside the region only as a complement to their own capital generation.

- **Government agencies, academic bodies and business associations** charged with providing and maintaining physical infrastructure, training human resources and providing information services, technical assistance, technological research and market development when these exceed the possibilities of the individual companies. Similarly, civil society organizations which should participate fully in the design and implementation of regional development plans: these should include business lobbies, professional associations, non-governmental organizations, labor unions, and voluntary and community organizations.

- **Promotion of new and better investments, and the maintenance of regional companies.**
- **Effective decentralization of Peru and the strengthening of the regions.**
- **Better physical infrastructure to support regional development.**
- **Increased trade with neighboring countries.**
- **Improved classification of human resources and their integration into regional development processes.**

**Cajamarca.** The first attempts at a regional development vision date back to the 1980s. They began when the eco-development programs promoted by the local university coincided with enhanced cooperation between non-governmental organizations. In the mid-1990s, a number of local institutions and organizations, at the invitation of the Cajamarca provincial government, set up a round table that in turn organized workshops to draw up a sustainable development plan for the province, implementing a series of actions coordinated at provincial, district and community level. Toward the end of 1997, they presented a first, developed proposal with objectives and strategic directions. The main points of this program are:

- Education in development and democratic culture.
- Exploitation of the territory for production and provision of services.
- Environment and urban development.
- Consensual management of watersheds and natural resources.
- Promotion of tourism and recreational activities.
- Improvement of productive capacities and activities for both domestic consumption and export.

**Amazon region.** The Research Institute for the Peruvian Amazon, IIAP, has collected and disseminated a series of documents putting forward a vision of sustainable development for the Peruvian Amazon. This vision embraces the environmental, cultural, economic, political and institutional aspects that could promote a better integration of the Amazon region and its natural and human resources into Peru's overall economy and development. Among its main strategic directions are the following:

- Improving human capacities (educational system, science and technology, training, intercultural matters, basic social services).
- Encouraging a greater supply of products from the region (products with value added, financial capacity, economic corridors, organization and knowledge, integral exploitation).
- Developing an efficient environmental management (territorial ordering, environmental education, evaluation of the region's natural heritage, protection of genetic resources and property, environmental information systems).
- Improving institutional capacities (mechanisms for reaching consensus, legal frameworks, negotiating capacity, competitive development of border areas).

Urban and rural development planning processes

The second component in the strategic direction on territorial settlement and physical infrastructure concerns urban and rural development planning processes. Over the past half century, Peru has passed from being a predominantly rural country to being a mainly urban one (Figure 6.3). In 1940, one third of Peruvians lived in cities and two-thirds in the countryside. At the start of the 21st century, three-quarters of all Peruvians live in cities. Urban growth has been very disorderly, even chaotic, and it will continue for the next two decades: it has already made Lima into one of the most populated capitals in Latin America.

Other provincial cities have also grown rapidly for two main reasons: either through migration by country-dwellers as a result of terrorist violence, or because of the lack of opportunities for development in rural areas due to the crisis in agriculture and stock-breeding, the shortage of basic social services, mine closures and so on. Medium-sized cities (Huancayo, Trujillo, Cusco, Ica, Arequipa) are experiencing problems similar to Lima's: these include urban growth at the expense of agricultural areas, overcrowding, violence and delinquency, informal commerce, environmental pollution, inadequate provision of water and electricity, deficiencies in public transportation and in the distribution and marketing of foodstuffs and other products.

Cities as engines of development

The challenges posed by the emergence of the fractured global order, Peru's difficult geography and the importance of regional economic spaces oblige us to reconsider the role that cities play in development processes. Cities should become nuclei that articulate the relationships between the rural areas that surround them: this, particularly, because it is more efficient to produce a wide range of goods and services in densely-populated areas.

Cities enjoy access to a critical mass of consumers, professionals and qualified workers, companies that supply inputs, financial and other services, as well as to the recreational activities which are inherent to an urban setting; these constitute an enormous advantage. In addition, proximity facilitates the dissemination of knowledge and technology among companies, while the diversification of activities means that cities are less vulnerable to the fluctuations of the economy.

Social services and programs that can bring greater prosperity and well-being to individuals. This means the provision of basic social services of quality for the entire population, the elimination of endemic poverty and the creation of jobs (Chapter 4). These measures will not only generate greater equality in the distribution of wealth and opportunities, but will also provide the qualified professionals and workers who should constitute the foundation of a competitive regional economy.

Regional identity and a vision of the future: these are important for the consolidation of the regions both from the standpoint of social cohesion and cultural development and as regards competition in the economic arena. Both will also support an ongoing campaign for the promotion of the region, its products, services and cultural attributes.

Development of regional economies over the next twenty years should concentrate in the first stage on creating economic and social spaces within each region and the development of planning and management capacities. In a second stage, possibilities of articulating the regions with each other and with foreign countries should be explored.

Peru's geography is an obstacle to the swift creation of a nationwide domestic market. It will therefore be necessary to begin by articulating those regions which—in practice and for geographical and historical reasons—have already succeeded in creating more or less integrated markets with some degree of autonomy. Determining the guidelines for this process will be one of the chief tasks for the proposed national commission on territorial ordering (Box 6.2).

Special problems are created by the administration of border areas since, to date, they have been managed exclusively from a military viewpoint that is based on the concept of national defence. As Peru's relations with its neighbors have been normalized—particularly with regard to the resolution of the conflict with Ecuador—it is now necessary to adopt a new vision of development for the border areas. Beyond the concept of "living frontiers", we must include the development of border areas in the process of regional integration and bilateral cooperation programs. This implies initiatives such as the development of physical infrastructure projects and social development programs, as well as the promotion of trade and investment.
Companies that are expanding tend to concentrate themselves in a first phase in the larger urban centers so as to take advantage of economies of scale. However, as their productive activities become consolidated and more specialized, they start to move to medium-sized conurbations where costs may be lower and they can take advantage of economies of location (proximity to inputs, ease of transport, labor costs). However, if the potential advantages of medium-sized cities are to become reality, they need adequate physical infrastructures and services. Regions that have more than one dynamic city have a greater chance of achieving economic viability and competing successfully in the domestic and international marketplace.

If they are to fulfill their role in articulating regional spaces and as engines of economic growth, cities must satisfy certain basic conditions.

Firstly, they need a strong municipal government with autonomous decision-making powers and administrative capacity to guarantee good urban management. Achieving close coordination between the different levels of government is a precondition for this: in turn, this implies a clear delimitation of the functions and jurisdictions assigned to central government agencies and to the provincial and district governments. At the same time, a stable legal framework must be determined to facilitate municipal management. All of this is intimately linked to the decentralization of the executive branch (Chapter 7).

For example, in the basin of the river Rímac where the city of Lima lies, there exist over a dozen provincial and district governments which have jurisdiction over different parts of this particular territory. In addition, there are large numbers of government agencies, public companies and private associations whose areas of competence overlap, creating problems of coordination. In the case of public transportation, as well as the private companies which provide services, the Transport and Communications Ministry, the transport directorates of the provincial governments, the district town halls and the National Police all have a say. Similar is the case of pollution-reduction efforts around the river Rímac.

Secondly, it is imperative to design and implement zoning schemes so as to guarantee the proper use of urban space. Zoning and construction regulations give municipal governments the power to regulate the operation of the land market. Zoning is the most commonly used mechanism for defining types of land use - residential, commercial, industrial or mixed - within cities. Zoning schemes seek a balance between private and public use of certain parts of the urban territory (communications infrastructure, cultural centers, recreational areas, ports and airports, public services, landfills). They can also determine the intensity of land use by imposing limits on the size and density of housing lots.

Thirdly, promotion of the real estate market is necessary if land, as a resource, is to be efficiently assigned. An active and transparent real estate market, in which land prices reflect the economic value that companies and individuals attribute to certain areas, will open the way to a more efficient utilization of the space assigned to different types of usage under the zoning scheme. A precondition for this is a good property registry: this will facilitate the buying and selling of real estate.

Fourthly, a transportation infrastructure is required that facilitates the movement of people and goods within the city. Zoning and the use given to public land determine the spatial organization of the city and the demands of public and private transport. The public transport system is one of the factors that determines the quality of life in a city. In large urban centers such as metropolitan Lima, it is principally the poor who live in outlying areas that are worst affected by traffic congestion and deficiencies in public transport: they must spend several hours a day traveling from their homes to their workplaces. In addition to the discomfort and tension caused to the users, traffic congestion is the cause of substantial economic losses and also contributes to environmental degradation.

In fifth place, a system of taxes and payments for municipal services is essential to permit local governments to receive the necessary inflow of revenue to confront current expenditures, make investments and service the municipal debt. This is particularly true for large conurbations.

There is special need to replace the currently over-centralized scheme for financing physical infrastructure in urban areas: it leaves little room for initiative or responsibility on the part of municipal governments with regard to investment. A regime of fiscal decentralization should be progressively introduced that is based on local taxes, automatic transfers from central government, the creation of specialist municipal banks and the emission of financial instruments capable of attracting private investors (Box 6.8). The transfer of fiscal and financial responsibilities to local governments should be effected in line with their management capacity (Chapter 7).

But not all financing for investment in infrastructure and services in urban areas is the responsibility of the public sector. Investment in drinking
Municipal bonds and funds and municipal development banks have been the main sources of financing for investment in physical infrastructure for the cities of industrialized countries.

Municipal bonds are an attractive financial instrument for private agents seeking long-term, low-risk investments. The requirements for a bond issue are macro-economic stability, a developed capital market and responsible municipal administration, as well as the existence of laws and procedures to regulate the functioning of the bond market. Few of these conditions exist in sufficient measure in Peru. A history of macro-economic instability, a still-incipient capital market and the fragility of municipal finances – due in large part to the municipalities’ limited autonomy in tax collection – will make it difficult for this financing option to materialize. However, it merits the attention of central government authorities and of the better-organized provincial governments that have greater administrative capacities.

Municipal funds and banks have a long and successful history in Western Europe, as illustrated by such examples as the Credit Local in France, the Banco de Credito Local in Spain and the Public Works Loans Board in England. These banks were created to resolve the problems that local governments have in accessing long-term capital markets. At the outset, many of these funds were financed by central governments, which find it easier to obtain low-cost financing; they then lend on to local governments through municipal development banks. In this way, the central government assumes the risk that municipal governments might fail to deliver; but it can significantly limit that risk by requiring municipalities to assume a prudent policy of indebtedness and by demanding a strict program of debt servicing by the municipal bank. In addition, it is possible to implement mechanisms to encourage the participation of private investors in municipal funds and banks.

The challenge lies in creating a framework of policies and regulations that would give local governments the opportunity and the incentive to become trustworthy debtors so that they can increase their financial resources in order to improve their cities and urban development in general.

If rural areas, where the majority of endemic poverty is concentrated, are to develop, then local economies must expand, and their integration into regional, national and international markets must be encouraged. Chapter 4 contains proposals which point to the same objective – improvements in self-generated employment, sustainable ways of earning a living, the provision of basic social services using information technologies and the use of systems for a complementary social currency. At the same time, it will be necessary to improve highway, energy and telecommunications infrastructure in order to more closely link rural areas with the cities located in the same regional economic space.

Some “intermediate” cities such as Arequipa, Cusco, Juliaca and Trujillo have enjoyed growth that exceeds the average registered for urban centers in general: they have become dynamic economic centers in their respective regions. Even so, they could play a far more important role if they had adequate infrastructure and strategies for a development integrated to their rural surroundings. This does not imply a massive repopulation of the most remote rural areas, however. Land is a limited resource in Peru and agricultural and stock-breeding activities do not have the capacity to absorb large numbers of work-

**Development of rural areas**

Unlike urban centers, rural areas are characterized by small and scattered populations. Here is carried out a wide range of activities that includes agriculture and stock-breeding, mining, small industry for the transformation of local resources, trade and other public and private services.

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**BOX 6.8**

**Bonds and municipal funds**

ers, especially considering the need to increase labor productivity in the countryside.

Peasant communities have played an important role throughout Peru’s history. They still retain their own social, political, economic and cultural organization, despite attempts by the government to change it. Rural development policies should respect and support peasant community organization while trying to bring it into line with the demands of the modern economy. This implies initiatives such as establishing a dialogue with community representatives in order to define priority programs for investment and development; also adapting as far as possible the legal and juridical frameworks to the individual community.

Given the importance to rural areas of small-scale agriculture and stock-breeding (often for subsistence and home consumption), these activities must be encouraged via agricultural extension programs, credit, soil and water conservation, and support for product processing. These programs should be aimed at improving productivity and achieving the gradual integration of agricultural activities into the local and regional markets.

Geographical information systems

Scientific and technological advances in recent decades—especially the methods and techniques grouped under the name of geographical information systems—provide new instruments for territorial management and regional planning. Geographical information systems are a collection of tools for long-distance vision and information-gathering: they allow us to record, store, process and permanently update information about specific geographical areas.

Geographical information systems make use of special sensors in satellites, aerial photography, radar imaging, location and positioning systems, specialist computer programs and other types of equipment to generate complex and accurate images of the physical, climatic, biological and economic characteristics of a specific area. This information can be subsequently processed and shared through data transmission networks for use in a series of activities: tracking changes in ecosystems, scientific and technological research, management of natural disasters, predicting natural phenomena and disasters, simulating projections in different productive areas, designing works of infrastructure, cadasters, assignment of space for different uses and so on. After almost eighty years of hard work, some of these techniques were employed in the completion of the National Geographical Map of Peru at the end of 1999.

These systems allow us to set out clearly and coherently the problems of settlement and territorial organization; they also help us explore ways of approaching the problems. The mathematical models and simulations which they incorporate allow us to feed in variables and parameters which determine the proper use of regional spaces: these include natural resources (soils, water, vegetation, climate, geology, minerals, hydrocarbons), the potential uses of the territory (agriculture, stock-breeding, forestry, fishing, mining, industry, energy generation), environmental risks (erosion, pollution, deforestation, overpopulation) and physical infrastructure (roads, telecommunications, irrigation works). In addition, it is possible to include information on the social situation (population, nutrition, health, education), economic activities (industry, commerce, services) and the structure of land-ownership (cadasters and registers).

The use of geographical information systems helps us understand the relationship between the different factors, forces and tendencies that coexist in a defined space and how they affect each other. This makes it possible to identify more options for

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**BOX 6.9**

**Urban planning in the transition to the 21st century**

In the transition to the 21st century, the principal challenges of strategic planning are:

- Establishing the location and characteristics of urban and rural space in accordance with the limitations and potential of each.
- Decentralizing and zoning urban space for housing, commerce, industry, recreation, basic services and other uses.
- Planning and ensuring supply of basic services (water, sewerage, energy, transport).
- Determining the development and administration needs of large, intermediate and small cities. Metropolitan Lima requires special treatment as a region in itself to guarantee better management of its problems and potential, avoiding conflicts of jurisdiction between different authorities.
- Administering better the processes of migration and urban growth and the resettlement programs for areas affected by violence.
- Developing as a priority Peru’s intermediate cities, encouraging the creation and differentiation of industrial activities and services by region and city.
In recent decades, internal migrations have wrought significant changes in Peru’s population distribution. Migratory tendencies are related to the deep and stubborn inequalities between regions: these have accentuated the concentration of the population in metropolitan Lima and a number of intermediate cities. They have also caused many rural areas to be abandoned, particularly those affected by violence during the 1980s and the start of the 1990s.

In 1940, 35% of Peruvians lived in urban areas and 33% of the total population on the coast. In 1972, 60% lived in urban areas and a roughly similar proportion on the coast and in the highlands (47% and 46% respectively). By 1998, 73% of the total population lived in urban areas: 52% lived on the coast, 35% in the highlands and 13% in the jungle. All this time, Lima held a privileged position as the economic, political and administrative center of the country. These factors helped convert Lima into the principal reception center for migrants: the capital expanded 120% between the start of the 1970s and the end of the 1990s.

A comparison of migration in the 1976-1981 period with 1988-1993 shows it is the coastal cities that have received the largest numbers of migrants and that these come primarily from the Andean highlands. Between 1976 and 1981, 975,000 people migrated, mainly to Lima and Callao; these two cities attracted migrants from Ancash, Junin, Ica and Ayacucho. Second favorite was Arequipa, which drew migrants from Puno and Cusco, and third-placed were the departments of La Libertad, Lambayeque and Junin, which attracted migrants from surrounding areas. Between 1988 and 1993, migrants totaled 1,118,000 people who moved primarily due to violence and economic crisis. There were no major differences with regard to their procedence and final destinations.

An evaluation of the various movements shows that, for the 1988-1993 period, the departments that registered the largest numbers of emigrants were Cajamarca, Puno, Junin, Ayacucho and Ancash, while nine departments received more migrants than the number of people that moved away. Among them were Lima, Tacna, Arequipa, San Martin and La Libertad.

Resolving problems, and to explore and anticipate – before they are implemented – the impact decisions may have on territorial organization, management of the geographical space and the provision of physical infrastructure.

Using geographical information systems as a starting point, support systems for spatial decision-making have also been developed over the past few years with the aim of assisting territorial management and regional planning. These systems include: data bases on geographical spaces, mathematical models and simulations to represent the physical space and its principal variables, and methods of presenting the information such as tables, figures, drawings and images. Users can process information from different perspectives and on different levels, adapting the models and the ways in which they are presented to their own requirements.

These systems can be placed at the disposal of government authorities, researchers and academics, public officials and private employees. They can also be made available to community representatives and leaders of grassroots organizations, who can participate as users as well as providing information on their own localities. This opens the way to an increased participation by social, economic and political actors in the generation, processing and consumption of information for management of space. This in turn will contribute to the development of a more democratic decision-making process.

Construction and maintenance of physical infrastructure

The third component of the strategic direction on territorial organization and physical infrastructure focuses on construction and maintenance of physical infrastructure. Peru’s diversity of geographical conditions, ecosystems and resources creates a wide range of possibilities for productive activity. Nevertheless, taking advantage of Peru’s potential poses great challenges and huge difficulties. Currently, the country’s physical infrastructure is severely deficient: over the first two decades of the 21st century an ambitious program will be required to expand facilities, improve the quality and maintenance of highway networks, ports, airports, multimodal corridors, telecommunications networks, irrigation works and systems for production and distribution of energy. This is essential both to reduce the current inequality of opportunity – something that particularly affects those who live in the poorest and most remote regions of Peru – and to allow us to compete successfully in the context of today’s economic globalization.
A first task in the development of Peru's physical infrastructure lies in defining the role of the state and the private sector, which can complement each other. In turn, this means defining criteria of economic and social profitability for the various investment projects so as to orient strategies for public investment, concessions to the private sector and regulation by the state. Given the relative weakness of the public sector in this area, a pre-requisite for future progress is heavy investment in the training of human resources to specialize in public management and regulation. Only thus will it be possible to design policies to promote, mobilize private investment and consolidate the institutions charged with regulation (Box 6.1).

**Land transportation**

Land transportation networks are of fundamental importance for the physical integration of Peru, to achieve a better settlement of the national territory and to link our economy and its regional components to neighboring countries and to the world economy. Over the next twenty years, Peru must develop an extensive highway network that is adapted to the different geographical and climatic conditions of the country and capable of withstanding a continuous and intense flow of passengers and cargo.

At the end of the 20th century, Peru had something in excess of 70,000 kilometers of roads and highways of which 11% were asphalted, 19% with solid foundations while 23% were dirt. The remaining 47% was made up of small roads that vehicles could use, but only in the dry season. The highway network is extremely precarious in most areas of the highlands and the jungle, where the main access roads to provincial capitals are impassable between December and April. The construction, rehabilitation and maintenance of roads, bridges and tunnels needs to be addressed differently according to the characteristics, topography and environmental problems of each particular region. The design and use of materials must take account of the impact of natural phenomena typical of each region – rain, floods, landslides, earthquakes – while rehabilitation and maintenance programs should be oriented towards the prevention of natural disasters.

Over the past half century, the role that could be played in Peru and its trade links with neighboring countries by railroads for the transport of heavy cargo – particularly minerals – has been underestimated. The competitiveness of Peruvian minerals exports depends in large measure on domestic transport costs, particularly when the mines, concentrator plants and refineries are far from the coast. Modernization of Peru's railroad infrastructure could, in many instances, reduce these costs.

Recent privatization of Peru's railroads means an opportunity to improve and rehabilitate the service. As well as modernizing the network that links Puno with Cusco, Arequipa and the southern ports, there is also a proposal to expand the central railroad from Cerro de Pasco to Pucallpa, passing through Huanuco and Tingo Maria. It is also proposed to construct a railroad to link the Junajuy area to the port of Chimbote, running through the extreme north of the Callejón de Huaylas with a branch line connecting with Huallanca and Huaraz, zones where large mining investment projects are under way.

Peru’s geographical location within South America could allow it to become an important link between Brazil, Bolivia, north-eastern Argentina and Paraguay on the one hand, and the Pacific Basin countries on the other. If this is to become reality, it will be necessary to construct multimodal corridors (Figure 6.4) for transportation by land (roads, railroads, ports) and air, as well as organizing new customs facilities. In addition, use of the corridors should be promoted as a way of accessing the Asian markets: this means trade agreements with neighboring countries, especially bearing in mind potential competition from Chile and Ecuador.

The two corridors with the greatest potential are in the north and the south. The former involves the articulation of river trade along the Amazon river basin with the Pacific coast: this would mean connecting the final navigable stretches of the Marañon river by a network of decent roads through the high jungle departments of San Martin, Amazonas and Cajamarca to the northern ports. There is a suggestion for construction of a corridor running from the port of Paita to the Sarameriza area of the Marañon; from there, access would be possible to the Peruvian and Brazilian Amazon as well as the Atlantic ports. (Other options would be to use the ports of Salaverry or Pacasmayo). In the case of the southern multimodal corridor, the ports of Ilo and Matarani would be upgraded to compete with those of northern Chile: it would then be possible to use the rail network to link up to Puno, Moquegua and Arequipa, extending through to Bolivia, south-eastern Brazil and north-eastern Argentina.

Responsibility for the design, construction, administration and maintenance of land transportation infrastructure falls on the public sector. If these tasks are to be efficiently carried out, the respective jurisdictions of the central and local governments
The system of concessions can allow the private sector to play an important part in the financing, construction and management of works of physical infrastructure such as highway networks, drinking water services, energy supply, railroads, ports and airports as well as in the exploitation of natural resources. First, however, it is necessary to define clearly the rules governing private sector participation and the regulatory functions that state agencies will exercise.

In first place, Peru must strengthen the juridical framework that regulates the concession process and the relations between public sector and private investors. It is up to the State, acting through the Congress and the agencies of the executive branch, to establish the legal dispositions which govern the way concessions are granted: it should establish or clearly identify the responsibility of state agencies charged with regulation.

Secondly, we must identify projects that can arouse private investor interest. This requires the carrying out of feasibility studies and cost-benefit analyses from the standpoint both of the private profitability of the project and its social profitability. This will allow the definition of priorities for the execution of these projects and the establishing of norms for the type of participation that private investors and the state will have in each.

For example, in the case of projects with high social but low private profitability, then state financing is justifiable, and possibly the direct provision by state agencies of these services. When they are projects of high private and low social profitability, their financing and operation should be purely private; and when the projects are of high social but intermediate private profitability, it will become necessary to explore the use of tax incentives, subsidies or other forms of state participation in order to guarantee the execution of the project and its proper functioning.

Thirdly, Peru must manage the concession process. This means choosing the method for adjudication of concessions, defining how bidders will be evaluated, selecting the legal instruments to carry through the operation, define the investment commitments, establish management charges, set rules for pricing, establish norms and goals for provision of services, create incentives and penalties for concessionaires, decide the duration and procedures for terminating contracts, design mechanisms for adapting to unforeseen circumstances and establish conflict resolution mechanisms.

Finally, state agencies are responsible for exercising the function of regulation and ensuring compliance with the accords set out in the concession contracts, supervising the execution of investments, watching over the quality of the service provided and administering the incentives and penalties established in the accords between private investors and the state.


need to be clearly delimited, especially with regard to highway maintenance.

Through several special projects, the Transport and Communications Ministry has started to partially delegate rehabilitation and maintenance of secondary rural roads, involving the local population in the tasks. Nevertheless, much remains to be done if these local and regional bodies are to be guaranteed the machinery, equipment, inputs and technical support they need to carry them out.

Similarly, as has already been pointed out, it is very important to encourage the participation of private investors in the construction of economically viable stretches of the highway network, especially in areas where inhabitants are able to pay the costs of use and maintenance. Participation by the army in road building should be restricted so as to avoid unfair competition with private companies. (The army pays no taxes and has access to a series of facilities not available to the private sector). Only in very special cases, such as in border areas, emergency zones or extremely remote areas, can army participation be justified.

By way of illustration of the need for a better division of labor between the state and the private sector as regards public transportation, is the example of the ring road designed to reduce traffic congestion in metropolitan Lima. Its estimated cost is US$400 million, to be provided by the state through loans from the international financial organizations. By contrast, annual expenditure needed to rehabilitate and maintain all Peru's rural and secondary roads that interconnect the most remote areas of the country is US$250 million. In these areas, many of them in the grip of endemic poverty, the social profitability of good roads -- and their contribution to a better quality of life -- is very high. Yet the possibilities of
Multimodal corridors

- Main highways
- Railroads
- Airport
- Main port
- Secondary port
- River port

Source: Ministry of Transport and Communications
Prepared by: Agenda PERU
obtaining an economic return on investment in the medium term are scant or non-existent. It would be preferable to orient the state's capacity towards spending on, and contracting debt for, construction of roads in depressed rural areas, while encouraging private investors to participate in building the metropolitan Lima ring road; the cost could be financed through tolls payable by users.

Port infrastructure

If Peru is to be competitively linked to the international economy, it needs an efficient ports infrastructure that can offer quality services at low cost. This will allow Peru and neighboring countries to offer themselves as a gateway to Asia and the Pacific region. Yet current deficiencies in port equipment and installations put Peruvian ports at a disadvantage with regard to other ports on the south Pacific coast. Although Peruvian ports have significantly reduced their operating costs over the past decade – principally by eliminating corruption and introducing flexibility into administration and staffing – much remains to be done.

Whether under the administration of an autonomous state agency or through concessions to private operators, Peruvian ports face the challenge of expanding and modernizing the docks, investing in equipment to speed up loading and unloading, building warehouses that can store different kinds of products, improving access roads for heavy goods transport, introducing automated systems to register and process loading and unloading, providing modern telecommunications equipment to the entire port system and contracting highly qualified personnel specialized in port operations.

Ports policy should take account of existing and potential economic activity in the regions in which ports are located, the role the maritime transport could play in their development and Peru's strategy for trade insertion into the international arena. On the north coast, the most interesting ports from this standpoint are Bayovar, Paita, Eten, Salaverry and Pacasmayo; some of these – once roads and railways are built into the highlands and the high northern jungle fringe – could link river trade in the Amazon basin with the Pacific Basin. On the central coast, the challenge is to modernize the port of Callao and to develop Chimbote and Pisco as secondary ports that specialize in the export of products from the Andes and the central jungle, as well as from the surrounding coastal area. In the south, construction and improvement work on the ports of Ilo and Matarani must be continued, so that they become an attractive alternative for trade in the region and with neighboring countries and compete with the northern Chilean ports.

The medium-term objective is to have available at least three large, modern and efficient ports in the north, center and south of Peru, that are capable of handling all types of cargo; various medium-sized ports along the coast, that specialize in certain products (fishing for industrial purposes and human consumption, agricultural, farm animal and chemical products, cabotage); and a network of river ports in the Amazon basin.

Airports and commercial aviation

Peru's rugged topography makes airports and air cargo and passenger services essential. As with other aspects of our national physical infrastructure, airports are deficient and airlines have experienced serious problems during the past decade.

There are more than 170 airports in Peru, most of them simply landing strips which do not have even minimum levels of security or services. Of the 55 airports administered by the Peruvian Airports and Commercial Aviation Corporation, CORPAC, 24 have runways of asphalt or concrete (not all in the best of conditions) and the rest are simply packed earth. For air traffic control, CORPAC has more than 50 radio navigation aids and its own communications network. Nine airports are capable of receiving international flights but only two have instrument systems that allow planes to land at all hours of day or night and in any weather.

Peru's geographical location should allow it to become a South American air traffic hub for cargo and passengers, especially with regard to flights coming from the Pacific Basin countries. However, outdated services and technology are an obstacle to development of that potential. If there were to be improvements, Lima could become a focal point for international air routes. Similarly, modernization of the airports of the interior – such as Iquitos, Cusco, Arequipa and Trujillo – would allow them to receive direct international flights, thus increasing the flow of both tourists and trade to their respective regions.

Air traffic policy should define priorities for investment in airport infrastructure and equipment, specifying which airports should be operated by private companies through concessions and which should remain in the hands of the state. Similarly, it is essential to define the criteria governing security, quality of service and promotion of competition in the provision of air passenger transport services by private companies, Peruvian and foreign. It is also
necessary to bolster the capacity of public entities that regulate air transport. The public sector also has control over air traffic, the handling of international negotiations and the promotion of civil and commercial aviation.

Special attention must be paid to the participation of the Air Force in cargo and passenger transport, so that a balance can be achieved between the service the latter is capable of providing to provincial communities and the possibility of unfair competition with private enterprise. Considering that air transport of cargo and passengers is unlikely to be profitable in some remote regions, it will be necessary to explore — in addition to Air Force participation — the use of Treasury subsidies for companies that cover these routes. These could be granted via a public tender, with the company that requests the lowest subsidy being granted the concession. Alternatively, there could be cross-subsidies through schemes of compensatory prices, making users pay.

In addition, we need to evaluate whether Peru should have a flag carrier airline and a significant number of Peruvian carriers operating in the domestic air transportation market. The existence of these two elements should win Peru greater advantages in negotiations over air traffic and the assignment of routes with countries which do have their own flag carriers. It would also help Peruvian companies which cover non-profitable routes and allow the country to count on national airlines capable of taking charge in emergencies where air transport is required.

**Energy transmission and distribution**

As happens with land, sea and air transport, Peru needs an energy transport infrastructure to connect production centers to end users and consumers. The main objective of energy policy is to assure the reliable provision at low cost of energy coming from different sources. In addition to energy generation (Chapter 3), this means being able to rely on a huge transmission and distribution network, particularly for electricity.

Electricity transmission lines, like oil and gas pipelines for the transport of hydrocarbons, should be designed to minimize their vulnerability to natural disaster and acts of sabotage (interruptions of electricity supply caused Peru serious problems during the years of terrorist violence). In the case of electricity transmission networks, Peru needs a grid that is interconnected nationwide, one which permits the choice of a variety of routes for the transport of energy from the point of generation to the places where it is consumed.

The privatization scheme for the electricity sector which commenced during the 1990s separated the activities of generation, transmission and distribution and offered them in concession to different operators. However, even though various concessions were awarded for generation and distribution, the transmission system has remained almost totally in state hands. There have been advances in the achievement of a national grid through the interconnection of the transmission systems: in 1997, the south-western interconnected system (SISO) and the southern system (SISE) were merged into a new interconnected system known as SISUR, while in 1999 the Mantaro-Socabaya transmission line connecting SISUR to the central-northern interconnected system (SICN) was granted in concession: SICN is the most important transmission network in the country, and supplies metropolitan Lima.

In this way, Peru is creating a huge national electricity transmission grid. It should be complemented with distribution systems which allow energy to travel from the points of generation — whether these are hydro-electric or thermal energy plants — to the places it is consumed, and especially to the poorest areas of Peru. Huancavelica, for example, is one of the departments which contributes most to hydro-electric energy generation, yet it has one of the lowest indices of access to, and use of, electricity in the country.

Additionally, we must define a strategy for the design of transmission and distribution systems that is closely linked to policies on energy generation and use, with particular reference to the weight and relative priority to be given to hydro-electricity as opposed to thermal generation based on gas, oil and coal (Chapter 3).

In addition to concentrating on electricity transmission and distribution, we must define a strategy for the transport of hydrocarbons from the production areas to the places where refining and processing will take place, and where the final products will be used and consumed. The Northern Peruvian oil pipeline has already been operating for twenty years. However, the exploitation of natural gas from Caranocha requires the building of a trans-Andean pipeline and the implementation of a distribution system that will deliver gas to industrial users and consumers. The size of the investment involved, the time required for it to become reality, the rigidity of energy consumption patterns and the economic and social consequences make it essential that Peru draw up a national strategy for generation, transmission and distribution of energy in all its forms. We should also evaluate the possibility of exporting energy (for example, gas to Brazil) and providing hydrocarbons
transport services (such as using the Northern Peruvian pipeline to transport Ecuadorian oil).

**Telecommunications Development**

A fourth and final component in the strategic direction on territorial organization and physical infrastructure concerns telecommunications development: this plays a crucial role in the design and implementation of a development strategy for the 21st century. New information technologies are currently enjoying explosive growth and the coming together of telephony, computer networks, television and Internet is creating a new environment for human interaction (Chapter 2).

More specifically, advances in cellular telephony and data transmission are permitting increasing numbers of people to access and share knowledge at a distance. This phenomenon is breaking down geographical, cultural and even economic barriers and creating the conditions for great economic and social progress in the developing countries (Box 6.12). In addition, the pressures of competition in a globalized world – where the production of goods and provision of services are not conditional on a specific geographical location – make it imperative to possess a highly developed and efficient telecommunications infrastructure.

The objective of a telecommunications policy should be to achieve, as fast as possible, the integration of all Peru’s population centers via an information technology infrastructure that permits secure, interactive and low-cost voice, data and image transmission. This is essential if we are to advance rapidly in all the strategic development directions and take full advantage of the opportunities offered by the transition to a society based on knowledge and information that is emerging today in the global arena (Chapter 2).

In recent years, Peru has made a giant leap in terms of telecommunications infrastructure. Nevertheless, by comparison with other Latin American countries, there remains much to be done to ensure reliable and low-cost access. Between 1993 and 1998, the number of fixed telephone lines in Peru increased from 750,000 to 2 million, digitalization of the telephone network rose from 38% to 90%, the number of lines in service went up from 3 per 100 inhabitants to more than 6, and public telephone lines increased from 8,000 to more than 47,000.

This growth is related to the privatization of telecommunications companies and the performance of Telefonica del Peru (which will continue to be the principal player in the field for the next few years). Nevertheless, Peru’s telephone density is still below the average for Latin America (Figure 6.5) and the cost of service remains too high. The entry of new companies into the fixed and cellular telephone markets could produce a gradual reduction in tariffs, expand coverage, improve quality and open up the range of services offered to users. If this is to be achieved, it will be necessary to design and implement with greater determination a telecommunications policy, and to strengthen the telecoms regulatory body (Chapter 7).

Because of its size, the fact of sharing a common language and the projects for regional integration, the Latin American telecommunications market could be twice as large as Europe’s within the next twenty years – especially if it manages to grow in a sustained manner. There exists a portfolio of investment projects to extend throughout the region the availability of submarine fiber optic cables, the coverage of communications satellites and a series of complementary projects. It is therefore possible to expect a significant future flow of capital and technology which will provide an advanced telecommunications infrastructure.

In this context, it is not enough for Peru simply to come close to the Latin American averages for availability of telecommunications services. Peru needs to become a regional leader and attract investment and advanced technology in order to develop a network of information highways that links up its entire territory. For example, laying fiber optic networks is the best way of ensuring the fluid and reliable transmission of large quantities of information in digitalized form. However, the cost of installation is very high outside the large urban and productive centers where communications flows are concentrated: it will be necessary, therefore, to complement fiber optic with conventional cable systems, wireless transmission via microwave and communications satellites, particularly for Peru’s more remote and inaccessible rural areas.

From this standpoint, cellular telephony – which is growing at an annual rate of 25% – could play a key role in the expansion of telecommunications services, always provided that it is possible to reduce tariffs and put them within reach of lower-income Peruvians. The use of satellites is another interesting option to reach the remoter areas of the country, especially the high Andes and the Amazon plains. To develop this option, Peru could make strategic alliances with Brazil and the Andean Community countries. In addition to providing telecommunications services, it would be possible to use these satellites to gather information to support the pro-
These new technologies facilitate the acquisition and absorption of knowledge, and offer developing countries unprecedented opportunities to improve health and education services, to formulate and execute public policies and to take entrepreneurial decisions. For example, the Monterey Technological Institute in Mexico has created a virtual university: each year, a total of 9,000 students matriculate, with the intention of obtaining a university degree, while a further 35,000 follow other courses of study. The courses are taught using printed texts and direct and recorded television broadcasts, while communication between students and professors is carried out via computers and the Internet. In addition, advances in communication technologies mean that many low-income countries are no longer isolated, while access to sources of knowledge (libraries, specialist magazines, data bases and so on) is facilitated in ways that were, until recently, unimaginable.

But, in addition to these opportunities, advances in information technologies and communication also pose threats. If distinctions increase in the ability to access modern telecommunications services and other information technologies, then the knowledge gap between rich and poor countries will open still further. What is more, in many developing countries a small group of fortunate people can surf the World Wide Web with ease, while others cannot yet read or write. Nevertheless, if it proves possible to reduce distinctions in access to knowledge and information technologies, it will be possible to raise income levels and improve living standards more rapidly than in the past.


Previously extracted text:

These new communications, placing competition:
can

transformed societies

permit swifter and more sustained expansion in the coming decade.

Telecommunications policy should ensure that the whole population has access to the entire range of information resources currently available. This implies designing and implementing measures to install, at the very least, one cabin for public access to the Internet in every population center of 250 inhabitants, to connect all secondary and most primary schools to this network, to reduce their costs of access under special pricing schemes (flat rates, discounts, differential tariffs) and to facilitate the importation and local production of basic information equipment and programs. Although access to the Internet has grown rapidly in Peru over recent years, these measures would permit swifter and more sustained expansion in the coming decade.

Potential of new communications technologies

Throughout history, advances in telecommunications have transformed societies by expanding their capacities for storing and transmitting information. Today, the convergence of a series of technological advances in information services and telecommunications is radically changing the way in which human beings interact. The store of data, images and information available has grown explosively, and new technologies permit the sending of enormous quantities of information to any point on earth within seconds and at ever lower cost.

A growing number of developing countries is taking advantage of these opportunities and directly adopting new technologies, skipping the intermediate stages, such as the use of copper cable in the laying of telecommunications networks or analog telephones. Some developing countries already have telephone networks that are entirely digital: in this respect, they are ahead of many industrialized countries where older technologies are still used. Nevertheless, in many developing countries only the fortunate few have access to telecommunications services. One of the principal obstacles is the monopolistic control exercised by suppliers, both public and private, of these services. However, these obstacles can be eliminated or reduced by both encouraging and regulating competition: that will also reduce the cost of telecommunications, placing the service within reach of a larger public.

These new technologies facilitate the acquisition and absorption of knowledge, and offer developing countries unprecedented opportunities to improve health and education services, to formulate and execute public policies and to take entrepreneurial decisions. For example, the Monterey Technological Institute in Mexico has created a virtual university: each year, a total of 9,000 students matriculate, with the intention of obtaining a university degree, while a further 35,000 follow other courses of study. The courses are taught using printed texts and direct and recorded television broadcasts, while communication between students and professors is carried out via computers and the Internet. In addition, advances in communication technologies mean that many low-income countries are no longer isolated, while access to sources of knowledge (libraries, specialist magazines, data bases and so on) is facilitated in ways that were, until recently, unimaginable.

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Index of telephone penetration in Latin America (1997)

<table>
<thead>
<tr>
<th>Country</th>
<th>Lines per 1,000 inhabitants</th>
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<tbody>
<tr>
<td>Cuba</td>
<td>40</td>
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<tr>
<td>Paraguay</td>
<td>20</td>
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<tr>
<td>Peru</td>
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<td>Bolivia</td>
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<td>Ecuador</td>
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<td>Dominican Republic</td>
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<td>Mexico</td>
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<td>Brazil</td>
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<td>Venezuela</td>
<td>3</td>
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<td>Colombia</td>
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<td>Costa Rica</td>
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<td>Puerto Rico</td>
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Nevertheless, the expansion of telecommunications networks and access to Internet are insufficient to ensure that we seize the advantages offered by the information society. In order for information integration to promote productive transformation and competitiveness, greater equality and social integration, environmental protection, scientific and technological development and a better use of our physical space, we must develop a series of information services, material with local content and easy-to-use programs. Only in this way will it be possible to transform telecommunications infrastructure into a blend of information networks at the service of development.

As indicated in Chapter 4, tele-education will play a crucial role in the creation of human resources, by endowing all Peruvians with the capacity of developing their talents within the global society of information and knowledge. Measures to expand our telecommunications infrastructure should, therefore, go hand in hand with an educational policy that prioritizes distance learning and continuous training, adapting both of these to the new technological possibilities. In addition to the use of CD-ROMs, interactive television, the Internet and so on, we must develop new educational methods, study programs and content that is adapted to regional and local conditions. We must also develop new approaches for administering educational resources, so as to improve management capacities and train our teachers and professors.

Finally, the demands of economic and financial globalization, together with the competitive pressures in increasingly open and integrated markets mean that an extensive and advanced telecommunications infrastructure — and the capacity to use it properly — is an essential precondition for economic success in the first decades of the 21st century. It will be impossible to advance towards prosperity and wellbeing if this condition is not fulfilled.

* * * * *

The political, administrative and productive ordering of our territory should be a response to processes of geographical and economic articulation that are rooted in an appreciation of the complexity of the Peruvian landscape and the problems that implies. If we are to organize the use of our territory, a first and urgent task it to gather, generate and process information on the spaces and resources available: this will allow us to harmonize territorial categories and identify economic spaces. This new way of looking at the settlement of our national territory will allow us to set priorities, propose strategies and provide infrastructure and telecommunications that are appropriate to our different productive and social activities, by linking human activities to the characteristics and the potential of the physical space that surround them.

Systematizing and harmonizing the uses of the national territory will assist the process of decentralization and regionalization. That, in turn, will allow the functions of central government to be more fairly distributed and adapted to the geographical, ecological, economic, social and cultural characteristics of our territory. The State bears responsibility for promoting and leading this process, and for establishing norms and policies for the proper use of space. It is also responsible for supervision and regulatory organisms as well as procedures for conflict resolution. In this sense, it should create a national commission for territorial ordering, which will include representatives from the public and private sectors, academia and civil society organizations.

Similarly, it is important to ensure a type of urban development that, instead of creating social and political problems, helps generate regional development nuclei that can act as the foundations for the strategic directions on productive modernization, equality and social integration, and a development that is in harmony with the environment.
Part Three

INSTITUTIONAL REFORMS, IDENTITY AND CULTURE
CHAPTER SEVEN

INSTITUTIONAL REFORMS AND DEMOCRATIC GOVERNANCE
INTRODUCTION

The four preceding chapters have covered the strategic directions — productive transformation and competitiveness; equity, integration and social justice; environmental management, natural resources, science and technology; and territorial organization and physical infrastructure — whose components make up the weft of Peru’s social fabric that needs to be rewoven during the first two decades of the 21st century. This chapter deals with the threads that make up the warp: four groups of institutional reforms — the state, the private sector, civil society organizations and security institutions — which need to be interwoven with the threads of the weft to give shape, consistency and flexibility to the fabric.

As pointed out in the first chapter of this report, it is not possible to approach our desired vision for Peru and the notion of the common good with initiatives and measures of a purely technical nature along the four strategic directions alone. We must move forward simultaneously with institutional reforms that guarantee democracy, good government and strategic viability. Putting the policies described in the preceding chapters into practice demands the generalization and intensification of democratic practices in every sphere of national life.

During the last half century, the demands of Peruvian society have exceeded the capacity of governmental organizations, legislative bodies, the judicial system, political parties, private companies, trade unions and the armed forces, among other institutions. The crises of governance we have experienced during the last few decades have been the result of this disparity between institutional capacities to process and respond to the population’s social, economic and political demands, and the multiplying demands that have emerged in recent decades as the result of rapid demographic growth, lesser willingness to go on tolerating injustices and the pressures of a turbulent international context marked by the emergence of a fractured world order.

This disparity reached its peak at the end of the 1980s, when terrorism, hyperinflation, the atrophy of the state, business paralysis, corruption and generalized disorder threatened to undermine the basis of the Peruvian nation. The uncertainty and anguish created by institutional deterioration and the governance crisis provoked a generalized lack of confidence and a profound sense of citizen frustration. During the last two decades, this frustration was directed primarily at political organizations and the state apparatus, which were perceived as being primarily responsible for the governance crisis. The frustration also touched the democratic system restored in the 1980s, which was considered incapable of resolving the country’s problems. This paved the way for popular acceptance of the April 5, 1992 self-coup by President Alberto Fujimori.

The success of the fight against terrorism, economic stabilization and Peru’s rejoining the international financial community at the beginning of the 1990s — accomplished with enormous sacrifice on the part of Peru’s majority and rupturing the precarious institutional order that still prevailed — generated hope and optimism in the population (Chapter 1). However, the authoritarian, exclusive and centralist style of the government — particularly its decision to hang on to power in any way possible, and at almost any cost, in the 2000 elections — caused these feelings to evaporate toward the end of the decade, and Peruvian society became polarized once again.

UTOPIAS AND GOVERNANCE

One of the most visible manifestations of the institutional crisis was the lack of confidence in the capacity and efficacy of the state. This opened up a space for a series of measures aimed at limiting state action in various spheres of national life. Many of these measures, such as eliminating bureaucratic obstacles to private and citizen initiatives, privatizing state-owned companies in the productive sectors, and the concession of public services to private companies, were indispensable to modernize the economy. However, improvisation, the lack of trans-
perey and inflexibility in execution diminished le-

gitimacy, created new problems (particularly an ex-
cessive centralism) and had a high economic and
social cost. Institutional reforms in the next two de-
cades should rebuild confidence in the state and re-
store its legitimacy, so that citizens can identify state
institutions as something that belongs to them.

**Beyond the four utopias**

One of the major challenges in designing in-
stitutional reforms is to avoid becoming, once again,
prisoners of one of the four utopias related to the
exercise of power and authority, which, when taken
to their extreme, have caused much damage to our
country throughout its history. We are talking about the
**statist utopia**, according to which the state can
and should do everything; the **market utopia**, in
which it is enough to let market forces resolve all our
problems; the **grassroots utopia**, the notion that the
action of grassroots organizations is the only thing
that will move us toward development; and the **mili-
tary utopia**, which postulates that only the armed
forces, with a tough, strong hand, are capable of
leading the country toward prosperity and wellbeing
for everyone.

Even though none of these utopias has com-
pletely dominated the political scene over the years,
at certain times one or another has predominated.
For example, during the last three decades, Peru ex-
perienced the dominance of statist and military uto-
pias with the military government headed by Juan
Velasco Alvarado at the end of the 1960s and begin-
ing of the 1970s; the struggle between the statist
vision and the grassroots utopia during the govern-
ment of Alan Garcia; and the predominance of the
market utopia, heavily tinged with elements of a mili-
tary utopia, in the last ten years during Alberto
Fujimori's two terms.

To move forward with the design and imple-
mentation of development strategies that are viable
and sustainable during the initial decades of the 21st
century, institutional reforms must avoid the extremes
represented by these four utopias. We should look
for the middle road, a balance between the prote-
goists of governance and development. It should be a
balance between actions of the state, market forces
and the wide variety of civil society organizations. It
should also include the effective subordination, al-
though without submission, of the armed forces to
civilian power.

Putting market forces in their proper place
means recognizing that the market is a social con-
struct, a human creation, and not a natural law or
divine mandate to which we must submit ourselves
inexorably. Like every social construct, it requires
active intervention if it is to function properly and
efficiently. Moreover, the market does not embrace
ethical or moral concepts, nor is there any reason for
it to do so; it is a blind instrument whose crude op-
eration allows resources to be assigned efficiently,
in production as well as in the consumption of goods
and services. Nor is it capable of creating stable and
durable social relationships on its own since its effi-
ciency is based precisely on the predominance of
ephemeral monetary transactions that expend them-

tselves in the act of interchange and do not generate
subsequent commitments between the parties (Chap-
ter 4, Box 4.18)

But, for the optimal functioning of the mar-
ket, it is necessary to fulfill very strict conditions
that are practically impossible to meet in real life —
such as complete information for producers and con-
sumers, perfect competition with no possibility for
companies to manipulate prices, the absence of ex-
ternalities and no public goods. Therefore, for the
market to fulfill its functions in the economy that
really exists, regulatory institutions must be created
that will allow us to get closer to the ideal conditions
in which the market should operate.

This in turn requires state intervention and
the participation of civil society, leading to the ap-
parent paradox that state regulation, the provision
of public goods, consumer participation and confi-
dence among the economic and social actors are
necessary conditions for the market to operate well.
The State and civil society organizations should not
be simply passive spectators of the operation of the
markets, but neither should they continually inter-
fere, creating distortions and impairing market func-

tioning.

**The imperative of democratic
governance**

Putting the proposed policies for each of the
strategic directions into practice requires demo-
cratic behaviors and habits; these need to be placed
within the framework of a liberal democratic politi-
cal system. Moreover, they must embrace a series
of practices and procedures that go much further
than the election of representatives and governors.
This implies that institutional reforms should in-
corporate, among other features, citizen participa-
tion in program design and execution, transparency
in the exercise of public functions, accountability
by authorities, the separation and balance of pow-
ers, periodic renewal of elected authorities, stability
in legal norms, agreement on and articulation of op-
ratering consensuses, freedom of expression and respect for the views and positions of minorities. These are all characteristics of democratic governance and democracy in its widest sense.

For example, it is impossible to achieve macroeconomic stability without guaranteeing the independence of the Central Bank, of regulatory authorities and the financial system in the face of political authorities, since the nature of their functions demands a degree of autonomy that is incompatible with the interferences typical of authoritarian regimes. Nor is it possible to put into practice effective sectoral policies, promote economic development and attract foreign investment without being able to count on stable rules of the game based on agreement and operating consensus among businessmen, political leaders, public officials and workers (Chapter 3). This stability is indispensable for transforming the productive system and improving competitiveness. It is only achieved when institutional solidity permits a fluid renovation of political authorities at all levels and the exercise of power alternates without losing course and without each new government having to start from zero.

Provision of basic social services and measures to reduce the accumulated social deficit requires active private sector participation through the efficient supply of services and direct support to the community; it also demands the voluntary, non-manipulated participation by civil society - grassroots organizations, neighborhood associations, non-governmental organizations, parents organizations, mothers clubs - in a variety of activities to advance toward equity, integration and social justice (Chapter 4). In particular, the voluntary work and democratic habits that characterize the participation by women in community kitchens [comedores populares], school breakfasts and the Glass of Milk program refute the saying that “you can’t eat democracy.” In addition, the battle to reduce poverty cannot be successful without the active participation of affected communities and of a wide variety of civil society organizations, business associations, local governments, religious organizations, grassroots movements and international cooperation. These ought to work together in a climate of mutual respect that avoids paternalism, manipulation and patronage, which destroy initiative and create resentment. Similar considerations apply to job creation programs.

Government authorities must also open up environmental management, natural resources, science and technology to private sector participation; we also need citizen bodies specialized in environmental conservation and consumer protection. A climate of liberty to stimulate debate, together with democratic habits and practices are indispensable elements if scientific creativity and technological innovation are to be encouraged (Chapter 5). Also, territorial organization and the building of physical infrastructure appropriate to the needs of the development strategy require, in addition to all the previously mentioned conditions, that local governments be strengthened and economic and social spaces created in the regions, a task in which the armed forces and police can be effective collaborators. (Chapter 6).

If prosperity and wellbeing are to be achieved, democratic governance has become an imperative at the start of the 21st century. The institutional reforms that make up the warp of the social fabric should aim to consolidate democratic practices in every aspect of national life. The experience of other countries, of institutions and corporations demonstrates that the only way to respond adequately to the ever faster rhythm of change in all spheres of human life is through democratic organizations and behaviors in the broadest sense of the word. If authoritarian political regimes and management styles were once seen as "efficient," this view has changed radically in the last two decades with the emergence of a fractured global order and the turmoil that characterizes it.

Reform of the State

Reform of the state is the first and broadest set of threads in the warp of Peru’s social fabric to be rewoven during the next two decades. Its major elements refer to the need to reach consensus about the role the state should play in the development strategy, to reforms in the executive, legislative and judicial branches, and in the electoral system, and to the decentralization, deconcentration and regionalization of state activities.

The aim of reforming the State is to give legitimacy to state institutions, so that citizens recognize that the State is something that belongs to them and identify the institutions as their own. This process, which is essential to build a democratic political community, has deep historic roots and has not occurred to date in Peru. This is mainly because civil society has not been sufficiently active and vigorous and because political parties and leaders have proved incapable of encouraging and giving continuity to the process of legitimizing the state. This has kept the majority of the population very distant from the exercise of political power; it is also one of the reasons for the current discredit into which politics and politicians have fallen.
The role of the State: In search of consensus

The role the State should play in achieving wellbeing and prosperity has been one of the central themes in debate during the twentieth century. The great variety of ways to organize how economies and societies function in different parts of the world means that this century may be viewed, from the perspective of the role of the State, as the stage for a broad and vast group of institutional experiments to promote human progress (Box 7.1)

The general function and size of the State

Achieving an operating consensus on the role the state should play in national development should start with an appreciation of the characteristics of the new fractured, global order that is taking hold and how to join it (Chapter 2), as well as a diagnosis of the country’s major development problems and the way to deal with them (Chapters 3 to 6).

In recent decades states have been losing their capacity to control the political, economic, social, environmental, cultural or technical problems emerging in a globalized world. At the same time, they have been giving up their autonomy and transferring responsibilities to subnational governmental agencies. But they are far from disappearing or becoming obsolete. Despite the pressures they face from above and below and the more active role taken by the private sector and civil organizations, states continue to be the main actors on the international scene and in efforts to achieve prosperity and wellbeing.

Awareness of the key role the state will continue to play during the initial decades of the 21st century has come about through a broad debate that has been taking place for the last 25 years. The pre-eminence given to the state by development theories and strategies since the end of the 1940s began to be questioned in academic and political circles from the mid-1970s onward, crystallizing at the end of the 1980s in what is known as the “Washington Consensus” on economic policies. This consensus articulated the common sense view prevalent in the academic community and international financial institutions at the time; its principal contribution was to recognize the importance of markets and the limitations of state intervention.

Ten years later a review of this consensus in different fora – such as the World Bank and the Inter-

BOX 7.1

Different concepts of the State

Oversimplifying, it is possible to perceive two opposing models of economic and political organization during the twentieth century: market economies and liberal democracy on the one hand, and a centrally planned economy and single party political system on the other. Each of the two models sought to promote material wellbeing for the people where it was applied and each was offered as the fastest and most effective way to achieve economic and social progress. The result of the struggle between these two models has marked the history of efforts to achieve prosperity and wellbeing, particularly during the last half century.

The 1929 crisis of the New York Stock Exchange and the Great Depression of the 1930s are among the most important highlights of the century. They underscored the weakness of the social and institutional structures in preserving economic stability and maintaining social cohesion in western countries. The need to find a better balance between the free play of market forces and action by the state in overcoming these weaknesses gave rise to the creation of a group of public institutions, the adoption of measures to regulate market behaviors (above all in the financial arena), and to programs to redistribute the benefits of economic development. In the United States, federal, state and municipal companies emerged to provide services to the community, while public programs were established to create jobs and reduce poverty, and regulatory agencies were created to combat monopolies and promote competition. Something similar happened in many countries of Western Europe, although the combination of market economies with political authoritarianism ended in Fascism in Spain and Italy, and in Nazism in Germany.

On the other hand, after the 1917 revolution, the Soviet Union nationalized production, abolished private property and installed a political regime dependent on the dictatorship of the proletariat; this transformed the state into the central player in economic and social processes. The economic advances that marked the first decades of the Union of Soviet Socialist Republics generated enthusiasm among many followers of this model in other countries, and allowed it to be viewed for several decades as an alternative for the world’s developing countries, before it collapsed at the end of the twentieth century.
The enormous mobilization of productive capacity, people and energies implied by the World War II demonstrated that states were capable of organizing and conducting highly complex military operations using a wide range of modern management methods. This, added to the sense of solidarity that arose from the sacrifice of many young men from the most diverse social strata, laid the groundwork for a great accord between capital and labor. This accord between capital and labor that was forged in Europe and North America gave rise to the Welfare State and to social security. It reduced the negative impacts of market liberalization and facilitated world economic growth and unprecedented social progress. One key aspect of the accord was the collection of income tax on capital to finance the social services associated with the welfare state, such as free education, public health, unemployment insurance, housing subsidies and income transfers to the poorest.

However, this great accord between capital and labor – together with the Welfare State that was its major institutional expression – began to fall apart during the last two decades. The expansion of state activities, the inefficiency of social service agencies and the relative aging of the population led to a progressive increase in the tax burden that overwhelmed taxpayers. This generated a reaction against what was perceived as “the giant state” in many industrialized countries, reaching its climax during the 1980s in the United States and the United Kingdom. In addition, financial globalization contributed to undermining the bases of the social contract between capital and labor. The great mobility that has characterized financial capital during the last twenty years has severely limited the possibilities that states have to tax the income associated with capital (Chapter 2, Box 2.1).

The failure of centrally planned economies eliminated one of the two major paths offered as alternatives to poor countries and allowed the differences between the way market economies work to be seen more clearly. For example, Germany and Japan emphasize consensus, collective action and long range business performance and employ a wider range of state interventions in the supply of public goods than the United States and the United Kingdom. At the start of the twenty-first century, it is ever clearer that progress toward prosperity and wellbeing requires a general framework that only liberal democracy and a market economy can provide. But, there is a wide range of options to define the role that the state ought to play in the development process.

Promote respect for diversity and a sense of national identity, which includes encouraging awareness of the plural identity that is continually manifest in our country, promoting a shared vision of the history and future of Peru, and shaping and transmitting citizen values.

Design, promote and execute a strategic plan for development; this implies articulating strategic guidelines for all economic and social agents by means of a broad process of consultation, and encouraging the formation of consensuses on matters that are critical for national development.

This group of functions that the state apparatus should perform, together with the strategic directions set forth in the four previous chapters, provides a frame of reference for the reform of state institutions.

Current levels of tax pressure and public expenditure – below 15% of gross domestic product (GDP) – show that the Peruvian state is not too big, particularly when the functions that it ought to perform are borne in mind. However, if one considers the quality and quantity of the services it delivers to the population, one can argue that the tax burden is too onerous. Therefore, it is necessary to reduce the state apparatus at the same time that the tax base is broadened (Chapter 3), then progressively increase tax collection and public expenditure until – with an efficient and effective state – tax pressure and public expenditure reaches about 20% of GDP.

Reforms of the State in Peru

Over the last four decades, Peru has experienced several state reforms, particularly in the executive branch. Influenced by the ideas of the Economic Commission for Latin America of the United Nations and the Center for Advanced Military Studies (CAEM in Spanish), the military government of 1962-63 began – by creating the National Planning Institute (INP) – what can be considered the first modernization of Peru’s state apparatus in the post-war period. This institution turned into the principal center for studying Peru’s reality, and became the seedbed for public bureaucrats and private businessmen with outstanding careers.

The reforms of president Fernando Belaunde’s first government began to provide the public administration with greater operating capacity. The Banco de la Nacion was created on the basis of the old Deposits and Consignments Bank; several ministries were strengthened; the Social Security services for blue and white collar workers were merged; and, municipal elections reinforced local governments. There was also an attempt to improve the efficiency of some offices and public companies, such as the state petroleum company (Empresa Petrolera Fiscal) and the National Fertilizer Corporation.

Between 1968 and 1975, during the government of General Juan Velasco Alvarado, there was a complete transformation not just of the development model but of the structure of the executive branch. The number of ministries and agencies with ministerial rank increased (among them, we should remember the Ministries of Food and Trade, the National Office of Integration and the National System to Support Social Mobilization, Sinamos). A series of autonomous government agencies in different sectors of the public administration were also created, such as the Development Finance Corporation (COFIDE), the National Research Council, that later would be converted into the National Council of Science and Technology, and various sectoral technological institutes. Nationalizations and the bankruptcy of some private companies that were subsequently absorbed by the state increased the number of public companies. Thus, the state became the principal protagonist in economic and social processes.

The economic crisis of 1976, with the first big major economic shock package announced by minister Luis Barua, forced a fiscal adjustment and a certain reduction in public expenditure. In 1979, when Javier Silva Ruete was minister of Economy and Finance, one of the first state personnel reduction programs was executed, with one year’s wages offered as an incentive for public bureaucrats to resign voluntarily. An evaluation made years later indicated that it was the most capable bureaucrats, who had the best chance of obtaining jobs in private companies, in international organizations and in higher education institutions who left the public sector. This reduced the government payroll, but it also increased the number of pensioners and significantly reduced the operating capacity of state bodies.

In his second government, president Belaunde began to bring the public administration into line with the new demands of development strategies and the international context. Between 1982 and 1983, a program to modernize the state administration was launched with a US$10 million loan from the World Bank. A fund was created to support hiring high level bureaucrats, an effort was made to improve the way the national budget was shaped and executed, and systems for public management were designed, such as a computerized program to register and track the State’s debt operations. More-
over, two educational institutions, the Higher School for Business Administration (ESAN) and the Pacific University, received part of the loaned funds to carry out studies on state reform and to prepare training material for public management. However, none of this was put into practice, and the larger part of the loan was used to hire external consultants whose knowledge of the country was fairly limited. As a result, the impact of this program to modernize the administration was very slight.

In the government of President Alan Garcia the state apparatus was maintained practically intact. Numerous public functionaries were added to the state payroll; there was an attempt to nationalize the private banking system; and, regional governments were set up, some of which created bloated bureaucracies. Around 1989-1990, the state apparatus collapsed under its own weight; in 1990, the 177 public companies then in existence lost more than US$530 million. Also, hyperinflation and the economic crisis reduced tax collection to less than 5% of GDP in 1989, one of the lowest percentages in the world. This led to what Richard Webb, ex-president of the Central Reserve Bank, called “a de facto privatization” of the state apparatus; it had lost its capacity to fulfill its most elemental functions, including guaranteeing public security.

The year after the emergency measures adopted by President Alberto Fujimori in 1990, a program to reduce personnel in the state apparatus was implemented, mainly by means of incentives to stimulate voluntary resignations. The privatization of public companies and the closing of numerous state agencies were offset by the creation of new ministries (Presidency and Promotion of Women and Social Development), of regulatory agencies and special programs, and by multiplying the transitory regional governments. The changes introduced into the organisms with the avalanche of legislative decrees after Alberto Fujimori’s self-coup in 1992, and the numerous changes to laws and legislative decrees made by Congress and the executive in the following years propitiated confusion, overlapping functions and turf conflicts among ministries and other public agencies. All this has led to an executive branch that is excessively centralized and concentrated, one that is characterized by its inefficiency and institutional weakness. To this should be added a style of authoritarian government that leaves little space for initiative by ministers and other senior officials.

The rejection of a bill for the Organic Law of the Executive Branch presented to Congress by Prime Minister Alberto Pandolfi in 1996 marked another failed attempt to reform the executive branch. As part of this attempt, the Presidency of the Council of Ministers created several working groups to support the ministries in the preparation of strategic plans. In addition, Peru suffered the embarrassment of canceling a US$55 million loan from the InterAmerican Development Bank for reform of the public administration, after it had been formally approved by the bank’s board. The ostensible reason for canceling the loan was the perception that reforming the executive branch would leave a high number of public officials without jobs. Something similar happened two years later when a loan of US$25 million already approved by the board of the World Bank was canceled, but in this case the government would not accept the conditions set by the international body requiring greater independence and autonomy for the justice system.

Toward the end of the 1990s, the issue of reforming the executive branch came up again, this time in the context of an economic growth crisis, a significant drop in tax collection, and calls by business to reduce public spending. After all the failed reform attempts, the government asked Confiep, the major business confederation in Peru, to present suggestions about reforming the executive branch. The reaction by the president of one of the business associations affiliated with Confiep was immediate: to demand that the government fulfill its functions, its responsibility and the promises made during the 1990s, and not to wait for the private sector to suggest how to reform the State.

Major problems of the State at the start of the 21st century

The profound changes that Peru has undergone during the last five decades, together with changes in the international context and the globalization process, require a deep reform of the State to adapt it to the new set of external and internal demands. The specific circumstances of the last ten years make this reform even more necessary, particularly because of the alarming weakness of state institutions in comparison with growing social demands, the need to incorporate ever more Peruvians as citizens with the full exercise of their rights, the demand for an effective decentralization and an increased public administration capacity that the transition from a period of economic stabilization to one of economic growth and institutional reform requires.

Considering the fundamental role that the executive branch plays in articulating a vision for the future and the design and execution of a national development strategy, redefining its functions, structure, organization and size is a task of the highest
priority. Moreover, added to the problems plaguing the judiciary for many years, there are now the effects of the judicial reorganization during the two governments of Alberto Fujimori. Although significant advances have been made in administrative aspects, the jurisdictional problems persist, and an alarming loss of autonomy in this branch of the state can be noted.

In addition, the discredit and loss of credibility of the legislative branch make it necessary to carry out a series of reforms so that the legislature more appropriately reflects the country’s political and regional diversity and thereby achieves greater representation and autonomy. Lastly, a reform of the organizations of the electoral system – whose weakness was clearly evident in the 2000 elections – ought to aim at fully guaranteeing transparent and fair election processes. But, above all, the reform should propitiate the development of a solid and durable political party system, which is the only way to achieve political stability and to consolidate democracy.

An efficient and participatory executive that has the capacity to design and implement strategies and policies is indispensable if wellbeing and prosperity are to be achieved. The reform is more urgent in the face of the diversity and complexity of the problems confronted by that state branch (Table 7.1). The executive lacks clear objectives to orient national development, making it difficult to define priorities for investment and public expenditure. A series of organizational problems generate inefficiency, low productivity and do not allow for adequate measurement and improvement in the performance of government agencies and offices. The excessive concentration of public spending decisions in the Vice Ministry of the Treasury leads to decisions based on criteria that are barely technical but rather dependent on what’s in the till, and often in accord with the vagaries of the political moment. The limitations of personnel at the management level does not allow strategic approaches, management methods and planning to be put into practice. The scant coordination among sectors generates interferences among government agencies and the duplication of functions. The fact that a public career does not exist makes it impossible to maintain an adequate level of professional quality or continuity in key positions of the public administration. To this, one has to add the weakness in statistics. This means that many decisions are taken without any knowledge of the real situation.

At the beginning of the 21st century, the executive branch contains a few islands of modernity and efficiency that are lost in a sea of mediocrity. A series of distortions and administrative vices have accumulated that make a downsizing and restructuring of the public administration urgent. Moreover, the procedures for shaping the national budget – that seems to be designed to hide information and to confuse the citizenry – have not changed significantly; nor have mechanisms to control and evaluate its execution been updated. All this means that the executive branch is not up to the challenges it will face during the first decades of the 21st century.

There are also numerous deficiencies in the way the judiciary functions. Corruption and arbitrariness, added to the perception that judicial decisions are negotiable, introduce a perverse element of unpredictability into the effective functioning of the law; this can reach uncontrollable dimensions given the influence of drugs trafficking and open interference by those who control the executive branch. Except for a few honorable exceptions, submission to the political power, irregular appointments, scant resources, mediocre personnel in charge of the judicial system, inefficiency and disorder are some of the problems that have characterized the administration of justice during the 1990s.

During the last three decades there have been several attempts to renovate the laws and the legal codes that regulate the country’s juridical existence. As a result, after a zigzag course, largely determined by the changes of government, parliaments and ministers of Justice, the 1990s came up with new codes of law in civil, penal and procedural matters, as well as a new Organic Law of the Judiciary and a new Council of Magistrates. However, the reforms of the judicial branch and the Public Ministry begun in the mid-1990s have failed to resolve most of the problems that affect these institutions. In fact, they have actually aggravated some of them (Box 7.2).

The high costs of judicial procedures and professional defense, distance and multiple legal obstacles make it possible only for upper income individuals to gain access to justice. Hence, many Peruvians cannot turn to a judge to back up their rights, while those facing charges in a penal process encounter great difficulties in obtaining a good defense. Owing to the slow, costly and unpredictable judicial processes, arbitration is being increasingly used to resolve conflicts between companies, which is a way to avoid the judiciary. The transfer to military courts of matters of fundamental importance to the country’s democratic life and the rule of law, as well as the summary administration of justice by peasant patrols ( rondas) and popular lynchings, are indications of the profound crisis in the judiciary.
<table>
<thead>
<tr>
<th>Area</th>
<th>Causes</th>
<th>Consequences</th>
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<tbody>
<tr>
<td><strong>Lack of objectives</strong></td>
<td>• Lack of an overall, coherent development strategy. Short term criteria predominate. • Poorly defined sectoral policies.</td>
<td>• Difficulties in establishing guidelines to set project priorities and to defend public spending priorities.</td>
</tr>
<tr>
<td><strong>Direction and decision</strong></td>
<td>• Divorce between line personnel and groups with decisionmaking power. • Parallel structures duplicate functions and create instability.</td>
<td>• Conditions inadequate to install an institutionalized strategic management focus in public sector.</td>
</tr>
<tr>
<td><strong>Public sector career</strong></td>
<td>• A public sector career does not exist. • Administrations do not promote formation of specialized teams. • Salary structure is insufficiently differentiated to stimulate specialized personnel. • Professional remuneration is well below market level.</td>
<td>• Highly qualified people lacking for line positions. • Public agencies cannot attract top level professionals. • No continuity in executive positions in central, regional and local governments.</td>
</tr>
<tr>
<td><strong>Technical operating capacity</strong></td>
<td>• Weak technical teams in charge of formulating and evaluating policies and projects. • Lack of policy and program designers in different levels of public administration. • Lack of continuity in actions means there is scant institutional memory. • No mechanisms exist to encourage productivity.</td>
<td>• Millions of dollars lost due to errors of mistaken diagnoses and inadequate capacity to execute policies and programs. • Spending priorities are not based on technical criteria.</td>
</tr>
<tr>
<td><strong>Intersectoral coordination</strong></td>
<td>• Mechanisms for coordination and communication operate in limited fashion. • Deficient intersectoral coordination, often works in informal ways, which weakens legitimate instances of interministerial coordination. • Lack of coordination among agencies to formulate programs with common objectives. • Excessive rotation of personnel in positions that require stability to articulate and coordinate programs.</td>
<td>• Duplicate functions mean valuable resources are lost. • Impossible to consistently track program results that make achieving shared objectives impossible.</td>
</tr>
<tr>
<td><strong>Control problems</strong></td>
<td>• Cumbersome procedures make for slow administration. • State auditor’s function inappropriately designed and executed. • Personnel more concerned about complying with procedures than with obtaining results.</td>
<td>• The excessive administrative control that exists makes for very rigid public management and reduces efficiency considerably.</td>
</tr>
<tr>
<td><strong>Statistical problems</strong></td>
<td>• Lack of support to generate basic statistics at different government levels. • Lack of economic statistics and up-to-date information at regional or local level.</td>
<td>• No statistics exist for making decisions. Management flies &quot;blind.&quot; • Planning is difficult due to inability to make projections.</td>
</tr>
<tr>
<td><strong>Organizational Problems</strong></td>
<td>• Government agencies lack sufficient autonomy to fulfill their functions. • No accepted mechanisms exist for accountability • Deficit of professional personnel</td>
<td>• Difficult to measure performance of most government agencies. • Enormous difficulties exist to establish incentives to encourage productivity increases in public sector.</td>
</tr>
<tr>
<td><strong>Finances and Budget</strong></td>
<td>• Weak budget, investment, personnel systems, etc. • Rigid procedures (budget system) • Fiscal centralization with excessive concentration of power in Vice Minister of the Treasury • Incapacity to oversees the quality of public expenditure. • Public budget subordinate to cash flow.</td>
<td>• Lack of capacity for defining investment priorities. • Excessively centralized decisions are based on scant technical criteria for assigning spending priorities. • Enormous difficulty in assigning budget resources to new programs.</td>
</tr>
</tbody>
</table>

Since it reopened in 1980, the legislative branch has not completely fulfilled its functions of approving laws and providing oversight for the performance of other branches of the state. Among other reasons, it has been unable to do so owing to the great distance that exists between voters and representatives, and to internal problems in the way Congress functions. During the 1990s, particularly during the term of the Democratic Constituent Congress and the Congress elected in 1995, the subordination of the legislative branch to the executive distorted its legislative and oversight functions. In great measure, this was the consequence of the broad majority that the government had in Congress after 1995.

**BOX 7.2**

Reform in the Judicial Branch and Public Ministry during the 1990s

The reform of the Judiciary begun in November 1995 has been under the direction of an Executive Commission made up of three Supreme Court magistrates and an executive secretary. Initially, the reform was presented as an effort to modernize administrative management and organization in the judicial branch. Later the objectives and results broadened. Even though the reform has been quite controversial, it has made some important advances:

- A new management and administrative system in the judicial branch was designed and put into practice. A management-style organizational structure was adopted, which has led to managing human and financial resources more efficiently.
- Equipment and information processing systems were renewed in order to support jurisdictional and administrative functions and to improve service for consumers.
- Infrastructure has been built and renewed to optimize the development of services and how they function. This included offices, areas to attend to the public, installations in penitentiaries, among others.
- Administrative and auxiliary staff were cut back and renewed, thereby improving the professional level and technical preparation of personnel.
- The huge volume of cases awaiting resolution was reduced and the procedural load on judges lightened. To do this, courts and transitory tribunals were created, which streamlined handling and resolving cases. The administrative organization of the judicial office was changed into courts and tribunals, especially through the establishment of corporate modules that share the services of administrative personal and auxiliary support. In the penal area, mechanisms were prepared to speed up processes by trying prisoners in the jail itself and naming judges to exclusively handle cases of those already behind bars.
- Many activities and training courses were organized, for judges as well as for administrative personnel that addressed juridical and administrative topics, information systems, handling the public, among others.
- Procedures were improved to obtain and allocate financial resources, which included self-generated resources (judicial charges) and those from the Treasury. This significantly improved remuneration for judges.
- It was possible to give priority on the nation's political agenda to the topic of judicial reform and to attract the attention of the public and the media.
- Support from international donors was obtained, at least temporarily, to implement certain projects.

But the reform process also had problems and negative features. Many of the changes created – particularly in the initial phase – discontent among the lawyers and litigants, owing to the constant moving of trials from one court to another. The new names and locations were a source of annoyance. In addition, perhaps through anxiety to speed matters up, certain measures were taken that affected basic principles of due process. In general, it is possible to say that the orientation of the reform, with an emphasis on administrative and operational matters, showed little interest in evaluating the reasons for or the juridical effect of many of the decisions adopted.

Even more serious is the violation of the judicial system's autonomy and independence in the exercise of the jurisdictional function. This has been manifest in the imposition of authorities in the highest levels of the judicial branch and the Public Ministry; modifications in the make up of tribunals or changes of judges who were in charge of resolving cases of special interest to the government; the notable increase in the number of provisional and substitute magistrates, who are easier to influence due to the precarious nature of their positions within the judicial career; appointments of regular judges blocked by the National Magistrates Council; and, the transfer of processes that belonged in the civilian judiciary to military courts. This not only affected peoples' guarantees but revealed a contradiction: a lack of trust in the judicial apparatus that supposedly had been reformed.

After four years of "reform," it is hard to believe that there is any underlying intent to reform; even less that there is the intention to fortify the Judiciary's autonomy. Rather, it is possible to see strong political interference by the government in the judicial branch and in the Public Ministry. This threatens independent magistrates and encourages servile attitudes and blind acceptance.

Citizens view congressional representatives as very distant from themselves and their interests, as discussing and worrying about matters of little importance, and forgetting voters once they are installed in Congress. This perception of Congress, as an institution far removed from the interests of citizens was accentuated by the lack of mechanisms for citizens to participate in legislative branch activities and by the existence of a single electoral district that did not permit a direct link between voters in different parts of the country and their representatives to be established. Its single electoral district puts Peru in an exceptional position in Latin America (Figure 7.1). The distance between citizens and congressional representatives also increases due to problems that some representatives (above all, those of the opposition) have in gaining access to the media and due to the scant transparency with which political movements and parties have managed congressional affairs. The phenomenon of the parliamentary "turncoats" (transfugas), who left the political parties for which they were elected to join the government party after the elections in 2000, has contributed to discrediting the Congress even further as the 21st century begins.

The subordination of the legislative branch to the executive has meant that Peru's most important laws have been handed down by the executive, using legislative faculties conceded by the Congress. In some cases, for example during Alberto Fujimori's first term, this created actual avalanches of laws drafted directly by presidential and ministerial advisors, that were hardly looked at by parliamentary representatives. Between 1980 and 1990, about one fourth of the norms considered to have the status of laws were drafted and approved by the executive; that proportion rose to three quarters between 1990 and 1995.

As a consequence of these difficulties, Congress has not fully expressed the country's political sentiment, which is more that the sum of the various opinions of the congressional representatives or the positions adopted by the majorities and minorities. The scant power exercised by Congress in relation to the executive branch weakens the process of democratic legitimation, and it does not permit citizens to identify with the state institution that ought to represent them.

Citizen calls for a representation that reflects the nation's diversity are manifest in the demand to move from a single electoral district to a multiple district, such as set out in the Constitution of 1993. Nevertheless, despite the fact that the constitutional text says that the single district will apply only in the elections of 1995, the majority of congressmen and women that backed Alberto Fujimori's second government did not want to deal with the issue or to approve the legal dispositions in order to put the constitutional mandate into practice; thus, the disposition was kept in place for the congressional elections of 2000 also. This foot dragging by the governing majority, together with the lack of interest in investigating the cases of corruption and human rights violations, contributed to reducing the prestige and credibility of the legislative branch.

The existing electoral system, designed by the Democratic Constituent Congress and approved in the Constitution of 1993, establishes three organisms – the National Electoral Board (JNE), the National Office of Electoral Procedures (ONPE) and the National Registry for Identity and Civil Status (RENIEC) – to carry out the country's electoral processes. Moreover, the Constitution establishes a single legislative chamber and sets out a fixed number of congressional representatives (120).

The lack of coordination and the conflicts that have arisen among the three organisms of the electoral system during recent years, the interference in the judiciary's functions, and the multiple management and organizational problems that they have experienced – underscored during the presidential and parliamentary elections of the year 2000 – make it necessary to review the structure and functions of the electoral system so that it can win back the confidence of the citizenry.
Reform of the Executive Branch

To overcome the serious problems of the executive branch, it is necessary to modify its structure, change the focus and procedures for managing human resources, significantly improve systems for assigning and executing public expenditure and strengthen the regulatory capacity. It is also necessary to decentralize and deconcentrate the public apparatus, something that embraces much more than the executive branch and that is covered later in this report.

The process of reforming the state ought to be designed and directed by an Interministerial Commission to Modernize the State (CIME in Spanish), headed by the prime minister and made up of senior officials of the new ministries of Investment and Social Development, Productive Transformation and Foreign Trade, Natural Resources, and of Infrastructure and Territorial Organization. It should have an executive secretary with the rank of secretary of state, who would lead a multidisciplinary group of highly qualified professionals and would be advised by a consultative council of experts, personalities and people of great experience in managing public affairs.

This commission should focus its efforts on reorganizing the executive branch, and it should operate for a maximum of five years and complete its task within that time. It would be responsible for reorganizing and regrouping the ministries, and reordering the activities of the decentralized public agencies. In addition to coordinating with the agencies involved the drafting of framework laws that may be necessary, this commission should design new administrative, financial and human resource management procedures for state organisms. To be effective, the commission would count on funds from a temporary fund for support of public management, made up of money from the Treasury, funds from the privatization of state companies, international aid and loans from international financial institutions.

New organic structure of the Executive Branch

The proposed organic structure aims at regrouping the ministries and its dependencies; articulating a new relationship among the president, prime minister, ministers and the secretaries of state; and establishing three levels of responsibility in public management. Special attention would be given to the upper level of public management.

Reordering the ministries and related agencies

The objective of this group of measures is to achieve greater coherence in policy formulation and execution, and to ensure that the organizational structure of the Executive Branch corresponds to the four principal directions of the development strategy described in Chapters 3, 4, 5 and 6 of this report.

The agencies related to the population’s wellbeing and human development would be grouped in the Ministry of Development and Social Investment, which would absorb the current ministries of Health, Education, Labor, Women and part of the Ministry of the Presidency. The Ministry of Productive Transformation and Foreign Trade and the Interministerial Commission of Economic and Financial Affairs would be responsible for activities related to the strategic direction for productive transformation and competitiveness. The Ministry of Natural Resources, the National Environmental Council and the National Council for Science and Technology would cover the strategic direction on managing the environment, natural resources, science and technology. This new ministry would take in the current ministries of Agriculture, Fisheries and the Vice Ministry of Mining while new Secretariats of State for Forestry, Wildlife, Biodiversity and Biotechnology would be created. The Ministry for Infrastructure and Territorial Organization would group together all the agencies involved in providing infrastructure works and public services, including the current Ministry of Transportation and Communications and part of the Ministry of Energy and Mines.

The Ministries of Defense, Interior and Foreign Relations would retain their structure, except that the penitentiary administration would move from the Ministry of Justice (which would be deactivated) to the Ministry of Interior; and the Ministry of Finance would be limited to the tasks of Treasury and public finance, with its economic functions moving to other ministries.

The office of Prime Minister would have three secretaries of state, responsible for strategic planning, preparing and controlling budget spending, and coordinating the work between the executive branch and Congress, local governments and the judicial branch. The Prime Minister would also be responsible for the work of the interministerial councils in charge of modernizing the state, social affairs and economic-financial affairs, as well as the Commission to Promote Private Investment in charge of concessions and privatizations. The National Defense Council would be made up of the ministers of De-
fense, Foreign Affairs, Interior, the Prime Minister and the commanding generals of the Armed Forces and National Police, all of them under the direction of the president of the Republic. Lastly, the national councils of Science and Technology, of the Environment and of Culture and Heritage would report via the Prime Minister’s office, although they would enjoy complete autonomy in the exercise of their functions. Figure 7.2 shows the proposed structure for the executive branch.

The Executive Branch currently has a large ministerial cabinet (16 ministers) and there is an enormous difference among the ministries in the allocation of budget resources. Toward the end of the 1990s, the Ministry of Economy and Finance had 30% of the budget, the Ministry of the Presidency about 20%, and the Ministry of Defense and the Ministry of Interior around 20% between them. The remaining 30% was divided among the other 12 ministries, although the ministries of Education, Health and Transportation each received between 6% and 8%. This makes it very difficult for the Council of Ministers to act as an forum to discuss, evaluate and formulate proposals for assigning public resources. Reducing the ministries from 16 to 8 would introduce a radical change by grouping together state agencies in accordance with the strategic directions, eliminating the Ministry of the Presidency, and turning the Ministry of Economy and Finance into simply a Ministry of Finance responsible for tax collection and public expenditure. In this way it would be possible to create an operational ministerial cabinet and one that is better balanced in terms of budget.

To provide an idea of how public expenditure would be modified by a new structure of the executive branch, it is useful to go through the exercise of relocating the budget assignments that prevailed in the mid-1990s in line with changes proposed in Figure 7.2. For example, the new Ministry of Development and Social Investment would have about 25% of the total budget. The new Ministry of Finance (that would have the budget of the Ministry of Economy and Finance, less the 10% that would be transferred to the Prime Minister’s office to cover costs of strategic planning, preparing the budget and governmental liaison) would have 26% of the budget – although about 17% would be destined to service external debt. The Ministry of Defense, the Ministry of Interior and the Ministry for Infrastructure and National Preparedness (which includes the budgets of the current Ministry of Transportation) would each receive around 9%. The new Ministry of Natural Resources (which includes the budgets of the current ministries of Agriculture, Fisheries and half the budget of the current Ministry of Energy and Mines) would be responsible for 3% of public spend-

ing. Lastly, the new Ministry of Productive Transformation and Foreign Trade and the Ministry of Foreign Relations would each receive about 0.5% of the public budget. All this without even taking into consideration the reassignment of public expenditure that would transfer resources from the ministries of Defense and of Interior toward social expenditure.

A new relationship between the president, the prime minister, the ministers and the secretaries of state

The new scheme clearly differentiates between the roles of Head of State (President of the Republic) and Chief of Government (Prime Minister). After decades of lost opportunities, of various governance crises and institutional deterioration, the president of the Republic at the start of the 21st century has the special responsibility of rebuilding institutions, of proposing a vision for the future and building operating consensuses to move toward a concept of the common good and of restoring legitimacy to state institutions. This implies that the Head of State should lead the country by articulating efforts, gathering together initiatives and building bridges to other state powers, toward civil society and toward private sector institutions. To do this, the head of state should not be swamped by daily tasks related to government management and by administration of the executive branch.

The Prime Minister would act as chief of government, in charge of presiding the Council of Ministers, of supervising and coordinating the management of ministries and government agencies that are part of the executive branch, and of coordinating the actions of the executive with local governments, Congress, the judiciary and other levels of the state apparatus. The Prime Minister would also be responsible for translating the proposals of the head of state and the governing party into strategic plans, policies and operating programs for the country’s future, particularly through the assignment of public resources via the national budget.

The ministers would be in charge of the full range of political and administrative aspects of their respective portfolios. This would avoid the ministers becoming “secretaries” to the president or prime minister, with no real decisionmaking capacity. The ministers would concentrate on formulating and directing sectoral policies, ensuring that they are in line with other government policies. For this, it is necessary to delegate attributions and administrative functions (including those related to public spending and budget execution) of the ministers to
the secretaries of state, who will be in charge of operating activities. The idea is to distribute functions between the secretaries of state and the ministers in a manner comparable to what would exist between the prime minister and the president.

**Levels of responsibility in public management**

The proposal for reforming the executive branch distinguishes three levels of responsibility: political authorities, senior level officials in public management and career officials.

The political authorities are responsible for establishing priorities, defining policy objectives and guidelines, effective communication with public opinion, agreement and the search for consensus, shaping a shared vision for development and recruiting both officials for senior public management and the most important career officials. The political authorities are the President of the Republic, the Prime Minister, the ministers, secretaries of state and senior officials in autonomous government agencies and the most important public companies. At the level of local government, these are the mayors, aldermen [regidores] and senior officials in municipal companies.

The upper level of public management is made up of professionals who combine technical knowledge with management experience and political criteria, who are capable of aligning the government’s political vision with the techno-administrative complexities of public sector activities. It includes advisors to the president and ministers, those in charge of the planning offices of the secretariats of state, general directors of the secretariats of state, executive directors of important programs and senior officials of the decentralized public agencies.

In view of the precarious institutional nature of Peru’s public apparatus and the lack of defined sectoral policies, the level of senior public management deserves special attention. It is essential to establish permanent working groups in each ministry, made up of advisors specialized in public management, to support authorities in formulating government policies, plans and programs. These groups should strengthen the capacity to design, follow
through on and evaluate public policies, given the possibility of encouraging medium and long-term political agreements.

In a complementary fashion, and in view of the urgency surrounding some critical problems of public management, it is necessary to create a “floating group” of highly qualified officials attached to the Executive Secretary of the Interministerial Commission to Modernize the State. The group’s mission would be to reinforce the level of senior public management in public entities, by providing specific and specialized help to those agencies that ask for it to resolve major management problems. These groups would work in a specific agency for periods varying between two and four months, before moving on to another institution that needs their services.

The group of career officials would include specialized professionals and agency administrators of the state apparatus; they should constitute a civil service with selection, evaluation, promotion and personnel training mechanisms that are modern and flexible, and that increase the efficiency and efficacy of public institutions. Among other things, this implies modifying legal dispositions related to the career of a public servant, hiring procedures and systems for establishing remuneration.

**Human resources for public management**

For the reform of the executive branch to be successful it is essential to attract and retain professionals, technicians and administrative personnel who are highly qualified, competent and experienced. At the same time, it is necessary to put into operation programs to reduce excessive personnel and to provide training and job reconversion opportunities for those interested in continuing to work in the public sector.

**Public managers**

The level of senior public management comprises approximately 300 positions of great responsibility, which include general directors, executive directors of programs and the senior officials of the most important decentralized public institutions. Similarly, at the level of provincial officials, there are an estimated 600 further positions of this kind. To be able to count on a group of professionals capable of appropriately performing the functions of senior public management, it is necessary to establish ways to evaluate and select personnel, assign appropriate levels of compensation and design mechanisms for professional training and updating.

In the first place, new procedures for selecting, hiring and evaluating personnel are needed. The objective of such processes is to identify professionals in or outside the public administration who are able to assume directional responsibility for the public sector and to continually train public officials to improve their performance. Evaluation should be seen as a management instrument for human resources, more than a way to award prizes and punishments. Secondly, it is necessary to modify and change significantly the procedures for calculating public salaries, to have sufficient budgetary foresight to compensate the professionals at the public sector’s management level appropriately and to establish incentives that link compensation to officials’ performance.

Thirdly, it is necessary to establish training programs so that professionals in various public agencies have the opportunity for periodic training and updating of their knowledge. Such training programs can be organized through consortia of national and foreign educational agencies; within five years, they should have between 850 and 1,000 qualified professionals.

**Advisors in senior public management**

The advisors in senior public management play a crucial role in the process of reforming the executive branch. In addition to an excellent professional education, they should have a deep understanding of Peru’s circumstances in their field of action and an adequate appreciation of the processes of change in the international context. Even though it is not necessary for them to be specialists in the different branches of modern public management, they should have knowledge of, and be familiar with, a wide range of approaches and methodologies, from historical analysis to mathematical simulation and organizational behavior.

The lack of advisors in senior public management with adequate education makes it necessary to develop an aggressive program of empowerment and training. Starting from the basis of knowledge imparted by their profession, these advisors will receive general preparation on strategies and development management, which will permit them to see their activities in a broader framework. After an evaluation, the graduates of these empowerment and training programs would become part of a registry of advisors who would be hired via the Interministerial Commission to Modernize the State;
they would provide services in the different areas of the public administration that request it.

Experts on public management issues

Another important aspect of human resource management in modernizing the executive branch has to do with the preparation of specialists in the various topics that the public administration covers. Among other measures, this requires identifying the number and type of specialists that each sector needs to function properly, now and in the future. It is estimated that in five years it would be necessary to incorporate between 3,500 and 4,000 specialists to strengthen the group of institutions in the executive branch institutions. Of these, between 2,200 and 2,500 should be incorporated into the central government and between 1,300 and 1,600 would be part of management in provincial governments.

The urgency of renewing the professional and technical teams in the public administration contrasts with the financial, administrative and operating limitations of the state apparatus. This makes it necessary to design an emergency program to recruit and retain public officials. It should include incentives to repatriate professionals working abroad, funds to retain and promote the most outstanding public officials, and special training programs for young professionals in working groups in public entities. A significant portion of the fund in support of public management would be used for this purpose.

Personnel reduction and job reconversion

During the first half of the 1990s, the government carried out an disorderly process of personnel reduction in the central government, regional governments and public companies. A major instrument was the creation of incentives for those resigning from the public administration. As in previous cases, the use of these incentives caused the best professionals, capable of finding other job opportunities, to leave the public administration. Moreover, between 1991 and 1993, these incentives involved a high cost with scant results. A World Bank report estimates the cost of the programs to reduce public officials – including the direct cost of incentives and the present value of liabilities contracted by the state for pensions – exceeded US$500 million; but the number of public employees dropped only 14%, since a high percentage of those who stopped working in the central government were reincorporated later into the regional governments.

At present, the State has an excessive number of officials with qualifications below the required levels, and it lacks highly qualified professionals. However, this does not imply that it is necessary to let public officials go abruptly and en masse. On the contrary, it is necessary to design and put into practice a gradual, progressive process to adapt officials to the new structure and new functions of the executive branch. This can be done naturally (through retirement, resignation or death) and by reassigning personnel to other agencies in the country’s interior, to empowerment programs and to an agency that would serve as a pool of public officials who will be relocated in the future.

Allocation of resources and management of public expenditure

Managing public expenditure is a fundamental aspect in the process of modernizing the executive. For this, it is necessary to have indicators and information systems that allow us to know the financial situation of state agencies, to track public spending, to evaluate the performance of various programs that receive money from the Treasury and to facilitate the accountability process. However, for the indicators to be useful, it is necessary to define priorities and policy objectives beforehand in the different agencies that use state resources. Given the effort required to create a system of indicators, one should begin by establishing management indicators for goals, resources and activities, and later develop indicators for results and impact.

Management information systems are of special interest for those in charge of senior public management; it is they who should define the categories for analysis, information needs and procedures for data collection. This will allow all officials in senior public management to have the necessary elements to make decisions, coordinate with other government agencies, and to position themselves in the broadest context of policies and the government’s development strategy. Moreover, these information systems are necessary to articulate the initiatives and effort of the public sector with the private sector and organizations of civil society.

Budget management, evaluation and expenditure control

At present, the allocation of public resources faces serious management problems. There is no body in charge of defining priorities for public expenditure; budgetary decisionmaking power is excessively concentrated in the Vice-Minister of the
Treasury; fiscal responsibility is markedly centralized in Lima and in the agencies of the central government (the Ministry of Economy and Finance and Ministry of the Presidency account for 50% of the budget); the procedures for defining disbursement schedules are rigid and complicated; and the tracking and control of public spending is limited and deficient.

One of the major weaknesses in the current budget system is separating costs from program results. Reforms in budget management should lead to a tighter link between the allocation of resources, performance by the programs and agencies that use those resources, and the results obtained. The idea is to establish a harmonious budget system that achieves a balance between the objectives of stabilization and fiscal discipline on the one hand (Chapter 3) and motivation for state bureaucrats to use scant resources in the most efficient way possible.

Reforming the national budget management should take into account at least five things. First, a system to estimate future budgets should be established to project expenditure during three or four years. This will allow for anticipating measures to consolidate fiscal discipline and adopt a medium-term outlook in managing public resources. Secondly, the Secretary of State for the Budget in the Prime Minister's office should be in charge of formulating the budget, whereas the Secretary of State for Strategic Planning, in coordination with the Comptroller's Office and the Congressional Budget Commission, would be in charge of reviewing and evaluating its execution. Here, the idea is to establish an evaluation system for management results and impact that will provide information for decision making in the Council of Ministers, instead of auditing only budget execution, with rigid procedures focused solely on what was budgeted and what was spent.

Thirdly, each ministry should have a budget system that, even though it should fit the general criteria established by the Secretary of State for Budget, should adapt to the conditions and types of activity that each ministry handles. This will allow expenditure to be programmed in a technical fashion, resources to be managed flexibly and spending efficiency increased. The aforementioned systems to review and evaluate the budget will make it possible to exercise adequate control over each ministry's expenditure. This is why it is necessary to ensure that each and every one of the agencies presents truthful and timely information. Fourthly, Congress and civil society organizations should play a more active role in preparing, reviewing and evaluating the budget. This makes it necessary to modify the way in which information is presented so it is more accessible; the timeframes for budget information also need to be modified to allow comments and suggestions to be received. The idea is to make shaping and executing the budget more transparent and to turn it into a real public management tool. Lastly, it is necessary to establish more flexible conditions for hiring personnel, establishing levels and ranges for compensation levels and delegating the responsibility for managing personnel to public managers.

To complement the above and to create the conditions for an adequate and efficient management of state resources, it is necessary for public agencies to count on degrees of autonomy proportionate to their ability to render accounts and to the transparency of their decision making procedures. In a context of continual evolution, state institutions should have sufficient liberty of action to adjust their goals, plans and programs to the new situations that come up in a changing environment. At the same time, this flexibility ought to be based on an agreement or operating consensus over their mission, their main objectives and specific goals, and on an institutional philosophy and organizational culture that is consistent with that mission.

**Regulatory systems in the Executive Branch**

Strengthening the regulatory agencies of the Executive Branch is very important if markets are to function efficiently. The regulatory institutions are concerned with the regulation of private natural monopolies, the use of natural resources, financial institutions, competition and consumer protection, and intellectual property.

There is a considerable number of regulatory agencies, some created recently. To fortify the State's regulatory capacity requires consolidating the agencies and giving them greater autonomy, capacity for action and political weight, but maintaining within each regulatory agency the specialization that its activities require in various specific fields. This consolidation would provide economies of scale and greater consistency in dealing with regulatory problems that have similar characteristics. It is also important to incorporate representatives of users of public services on the governing boards of regulatory agencies and to create levels of consultation within each one to ensure citizen participation in decision making.

To give greater autonomy to regulatory agencies, it is necessary that their authorities be designated by the executive branch and ratified by Congress, so they can be reasonably isolated from daily
political pressures. Also, they should have their own capacity to generate and allocate resources. On the other hand, even though the regulatory agencies should have a link to the Secretaries of State that establish the norms for their operations, the regulatory agencies’ performance should be evaluated by the respective minister in coordination with the congressional commission for that sector.

Regulation of natural monopolies

Despite the importance of regulation to proper market functioning and the need to consider it explicitly in the strategies for privatizing public services, Peru does not have wide experience in regulating natural monopolies. Therefore, it is necessary to prepare and incorporate specialists regulating natural monopolies. Therefore, a respective establishment linked field, ment and economic growth.

The first of these regulatory bodies would group together the agencies that regulate fixed and mobile telephony, electricity distribution, gas and the network of drinking water and sewers. The second would regulate the concessions for interurban highways, railroads, ports, airports and major irrigation works.

Regulating the use of natural resources

At present, the legal framework for protecting the environment and natural resources is inadequate, ineffective and disperse. In the majority of cases, the existing standards and the technical and administrative capacity of the regulatory agencies have no bearing on what they are meant to regulate, so they are irrelevant or impossible to apply. Despite the efforts made by the National Council on the Environment, CONAM – in charge of formulating environmental policy – the majority of public agencies related to the environment are dispersed in different ministries and there are no mechanisms to coordinate policies and programs (Chapter 5). In general terms, existing legislation and standards have subordinated the objective of achieving sustainable use of resources to the objectives of promoting investment and economic growth.

The registry and administration of intellectual property and the establishment of technical standards should be the responsibility of a specialized institution, that should also promote quality control and establish a system of technological information

Regulation of financial institutions

Regulating financial institutions is essential to guarantee stability and solidity of the financial system, to encourage domestic savings to enable this sector to efficiently fulfill its intermediation function between domestic and external savings and investment (Chapter 3). Continuing with the idea of grouping together regulatory institutions according to their general functions, it would be useful to look at the possibility of integrating into a single Superintendency of Financial Institutions the activities currently carried out by the Banking and Insurance Superintendency, the Supervisor Commission for Companies and Securities the Superintendency for Pension Fund Administrators.

This new superintendency would have a degree of autonomy and political weight in accord with the importance of its functions. It would permit regulating the financial system with an overall vision of the operations of commercial banks, investment banks, the stock market, pension fund administrators, insurance companies and other bodies of a financial nature. It would also ensure there is coherence among their activities, that financial companies operate transparently and that users of the financial system are duly protected.

Regulating competition and protection for intellectual property

Promoting and regulating competition is of fundamental importance if markets are to function efficiently. A Superintendency to Promote Competition should take charge of avoiding unfair competition, abuse of monopolistic positions, the creation of artificial barriers to access markets, price fixing and other illicit practices that distort market operations. This institution should also be in charge of facilitating the exit from the market and restructuring of companies, as well as protecting and defending consumers.

The registry and administration of intellectual property and the establishment of technical standards should be the responsibility of a specialized institution, that should also promote quality control and establish a system of technological information.
for providing services to the productive sector. This implies that the functions of the present INDECOPI should be divided into two: the Superintendency to Promote Competition and the Institute of Intellectual Property and Quality Control, that would be attached to the Ministry of Productive Transformation and Foreign Trade.

Reform of the Judicial Branch

The Constitution of 1993 contains a series of norms that, if put into practice appropriately, would permit significant improvement in the way the judicial branch functions. Among the norms are:

- Charging the National Magistrates Council (CNM) with everything related to the selection, appointment, promotion and removal of magistrates: this would eliminate the traditional participation of political organs in this arena.
- Creation of the Magistrates Academy as the specialized organ in charge of training candidates for entry and promotion in the judicial career, as well as judges and prosecutors.
- Recognition of the ways that peasant and native communities administer justice and apply the common law.
- Election of justices of the peace by popular vote.
- Continuation of the Constitutional Tribunal and the Public Ministry as autonomous organisms.

In order to advance in reforming the judiciary, it would be sufficient to fulfill what is stipulated in the 1993 Constitution. However, as mentioned previously, at the start of the 21st century we are still very far from fulfilling these constitutional dispositions. The Judiciary, state prosecution service and the Magistrates Academy continue under reorganization; two-thirds of the judges and prosecutors in the country are provisional or substitute appointees; and several norms and political measures have paralyzed the process of appointing titled magistrates initiated by the National Magistrates Council and have reduced the scope of the preparation courses for those who aspire to the Magistrates Academy. Moreover, in addition to cutting back the attributes of the National Magistrates Council in terms of judicial appointments, another restriction was placed on its powers to remove higher magistrates; this caused the resignation of members of the Council and their replacement with substitutes, who have acted submissively in their relationship to the government.

In addition, for several years it has been impossible for the Constitutional Tribunal to be informed of or resolve unconstitutional acts against laws or conflicts of jurisdiction between state organs since the Congress removed (in an obvious act of reprisal) three of the seven magistrates. This left the tribunal virtually powerless to resolve matters of major juridical and political importance. And nothing has been done to write the legislation that would regulate or initiate the system to select justices of the peace by popular vote.

But perhaps most serious has been the way in which the various institutions of the judicial system have been manipulated to put them at the service of the interests of those who control the government apparatus. Instead of being the last instance of defense for the rights of all citizens, the judicial system has been converted into an instrument to exercise arbitrary power. This has perverted the entire judicial system, which is now used to impose arbitrary decisions, harass political enemies, award privileges to allies of the government and to defend particular interests. Along with corruption, this perversion of the judicial system has accentuated the lack of confidence and fear of the citizenry before the state. It is one of the most tragic legacies that the Fujimori government leaves to future generations.

As a consequence, at the start of the 21st century, recovering public confidence and credibility is a prerequisite for reform of the judiciary. This demands a radical change in the way matters in the judicial system are treated. Among other things, it implies recovering institutional normalcy and stability, deactivating the Executive Commissions in the Judiciary and Public Ministry, completing the reorganization imposed on the judicial system, and also completely reinstating the Constitutional Tribunal, the National Council of Magistrates and the Magistrates Academy.

For all these reasons, and because of recent experience, if it is to be reliable, credible and legitimate, the reform of the judicial branch must be based on absolute respect for the rule of law; the supremacy of the Constitution, unlimited respect for human rights and the re-establishing and strengthening of democratic institutionality. However, despite the enormous harm inflicted on the judicial system during the 1990s, it is essential to avoid the temptation to return to zero; and it is necessary to take advantage of the scant but important advances during the decade of the 1990s, mainly in the administrative area. Beginning with these considerations, it is possible to identify some central points in an agenda for reforming the Judiciary.
Autonomy and self government

The autonomy of the judicial system is the key feature of the reform. The current situation of continual interference in managing the administration of justice must be reversed. Magistrates should enjoy total independence in exercising their functions. Their selection and appointment should respond to evaluation criteria based on the merits and knowledge of the postulant, not on decisions based on factors of political affinity or personal relationship. Moreover, the institutions in the judicial system should recover their power for self-government; and it should be the magistrates themselves who elect the authorities to direct and administer their institution. This requires a new leadership in the judicial bodies and a process of institutional renewal driven by magistrates who enjoy well known intellectual and moral prestige and political independence.

Providing judicial services

The result of reforming the judicial system should be a qualitative improvement in providing justice and attention to citizens. In operative terms, this requires:

- Modernizing administrative systems, streamlining organizational and management structures, simplifying operating procedures and steps, information systems, employing technical personnel and incorporating criteria of more efficient economic management.

- A better level, an appropriate remuneration policy, and working conditions in line with the importance of the function of magistrates and judicial support personnel, both for the state and for the society.

- A new organic structure for the Judiciary or Jurisdictional Branch, guaranteeing unity and exclusivity in the jurisdictional function. Its maximum hierarchical level should be the Supreme Court and it should include the civil justice system, the current military justice system and other state organs that carry out specialized jurisdictional functions.

- A true specialization by magistrates, which will allow for improvements in the quality and predictability of judicial decisions, and the designation and continuance of those who have specialized knowledge or have received special training for the administration of justice in certain thematic areas.

- Situating military justice where it should be — as a specialized judicial instance, exercised in its highest levels by lawyers selected by the same system that is applied to all the magistrates. Their competence should be limited to military discipline and investigation of crimes of a military nature, committed exclusively by military or police personnel, strictly while in service. As a result, in peacetime, it would lack any competence to judge civilians (including retired military) and common crimes.

- Establishing a System of Judicial Coordination as a space in which policies to develop the sector can be agreed and planned. This coordinating mechanism would be integrated by the various instances and entities linked to judicial business, including the Constitutional Tribunal, the Public Ministry, the National Magistrates Council, the National Electoral Board and the Magistrates Academy. Moreover, representatives of the Bar Association and the law schools should participate in this system.

Codes of Procedure

Peru needs to update and perfect its procedural codes in their technical and juridical aspects, particularly in the penal area. A procedural system of an accusatory type should be implemented to guarantee fundamental rights. It should be based on oral evidence, and the deprivation of liberty should be an extreme and exceptional measure. Criminal investigation by the police should be directed and controlled by the prosecutor and should respect people’s rights. Also, it is essential to review and eliminate the emergency penal legislation passed down in recent years due to the multiple violations against constitutional rights that it sets in motion.

Justices of the peace, community justice, arbitration and conciliation

Administering justice does not end with the formal judiciary. On the contrary, it ought to be complemented with other mechanisms such as courts presided by justices of the peace, community justice, citizen participation in the election of certain judicial positions, and the use of arbitration and conciliation for the parties in conflict. These mechanisms are called “alternative systems for conflict resolution” (Box 7.3).

The justice of the peace system, involving people who are not lawyers, is well accepted in many parts of Peru, especially in the rural areas. The effi-
cacy of a justice of the peace resides in his being a person respected by the local community as "a good neighbor," who acts as a mediator and conciliator prior to imposing sentences. The justice of the peace does not resolve on the basis of legal norms or codes but according to common sense and socially accepted values and practices. If the justice of the peace system were put in the hands of lawyers or excessively formalized, its acts and procedures would lose their principal virtues and the key to its efficacy.

The 1993 Constitution (Articles 152 and 139) provides for citizen participation in judicial matters through popular election and eventual recall of certain judicial responsibilities. The justices of the peace ought to be elected by popular vote of the people of the surrounding area and by peasant and native communities. The possibility of revoking a justice of the peace is also an effective means for the citizenry to control and demand accountability for his functional and moral conduct.

Article 149 of the 1993 Constitution opens up spaces for the exercise of traditional forms of administering justice, in particular for peasant and native communities. These "can exercise the jurisdictional functions within their territory and in accord with the common law, as long as they do not violate a person's fundamental rights." Other legal norms ought to establish the means to coordinate among these special jurisdictions and the justices of the peace and other instances of the judiciary.

One of the major objectives of judicial reform should be to promote the use of alternative solutions for resolving conflicts, such as arbitration and conciliation. These mechanisms are more accessible, rapid and effective but less costly for solving disputes or lawsuits. They also help to decongest the overwhelming procedural burden of the Judiciary and help citizens gain better access to justice.

Selection, appointment and promotion of magistrates

To guarantee there are suitable and appropriately trained judges and prosecutors it is essential to re-establish the attributes of the Magistrates Council and Academy for preparing those who aspire to a judicial career and the examination for promotion within it. The Council should also carry out the periodic ratification of magistrates - something that the Constitution stipulates be done every seven years - and fully exercise its competence in removing magistrates.

The provisional appointments in the judiciary and state prosecution service should be eliminated. It is not possible to do this, though, from one day to the next. Appointments en masse of titular magistrates is not useful. The emergency program of the Academy to prepare aspirants must act as a first filter for selecting candidates, at the same time as the professional quality of candidates who present themselves for the examination by the National Magistrates Council improves.

Toward an authentic judicial reform

Judicial reform must be consistent and sustained over time. It demands a process of institutional and generational renovation, one that encourages well-trained young professionals endowed with vocation to enter the career. For this, the political manipulation and the climate of insecurity in the judicial system must cease, since it discourages those who could exercise judicial responsibilities with integrity, moral solvency, knowledge and experience and assume the commitment to move toward an independent and autonomous judicial system.

The final lesson of the failed reform process carried out by the government during the 1990s is that any judicial reform carried out under the patronage of the passing political power and without the backing of a broad national consensus cannot be authentic. Nor can a reform that pretends to create a judiciary incapable of respecting its autonomy and independence, and therefore lacking in prestige and dignity. A credible, efficacious and legitimate process of judicial reform is impossible if it is directed by an authoritarian regime, above all when its actions are aimed at controlling and forcing the organic and function autonomy and independence of the judicial system.

Reforming the Legislative Branch

Congress is one of the pillars of the democratic system. It should represent the wide range of the citizenry's interests and, at the same time, act efficiently to produce laws and to fiscalize other state powers. However, parliament is currently one of Peru's most discredited institutions; public opinion considers that congressional representatives are corrupt, receive excessive salaries, work very little and perform poorly. This grave situation demands a change in the legislative branch that ought to revolve around the parliamentarians' "representativeness" and the efficient working of the Congress.
BOX 7.3

Alternative systems for conflict resolution

The alternative systems for conflict resolution (SASC, in its Spanish initials) cover the void left by the judicial branch by its failure to respond in a timely and adequate fashion to the demands for resolving controversies. The parties that use the SASC are of two kinds: people of scant resources who cannot gain access to the judicial branch due to the direct and indirect costs of litigation; and those who require a highly specialized intervention or rapid resolution because, for them, the delay of a judicial process can be as harmful as the conflict itself.

The 1993 Constitution considers several norms that recognize communal forms of administering justice, which differ from the judicial branch and "formal justice," as well as mechanisms that encourage citizen participation in this field. The authorities of peasant and native communities, the rural militias and justices of the peace are components of this alternative system. The existence of these mechanisms to resolve conflicts is explained by the ineffectual State presence (the absence of a State apparatus) and of "official law," as well as the rooted ancestral practices for administering justice more in accord with the idiosyncrasy and customs of the communities. Currently there is an estimated 4,000 justices of the peace nationwide compared with little more than 1,500 judges in other instances of the Judicial Branch.

Arbitration and conciliation are two important alternative means for resolving controversies without the need to go to the courts. Arbitration is a specialized service but of restricted access owing to its cost; the parties need to contract the services of a highly qualified and experienced arbitrator. However, it is very important in resolving conflicts associated with contracts or commercial transactions. The Center for Conciliation and Arbitration of the Lima Chamber of Commerce dealt with 74 processes in 1998, but the costs reached US$52 million.

Conciliation is based on solving the controversy through intervention by a third party who proposes adopting an agreement arising from a consensus between the parties. In recent years, the legislation and drive to use conciliation has progressed a great deal, with private centers being created that specialize in the topic. For example, the Children’s or the Adolescents’ Defenders, dedicated to family problems, dealt with 16,891 cases from January to April 1999 alone.


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Restoring the bicameral Congress

First, it is necessary to move from a unicameral to a bicameral Congress, with a Senate and Chamber of Deputies, thus restoring the system in place up to the 1993 Constitution. Congress’ poor performance and scant representative nature toward the end of the 1990s highlights the need to return to a two-chamber Congress.

The two chambers should participate actively in the discussion of laws. Each one has a particular nature, so deliberation can be much richer and more complex than in a unicameral system. The existence of two chambers would also avoid the haste and lack of reflection normally associated with the legal dispositions that regulate the country’s economic, social and political life. Congress would be presided in alternating fashion by the president of each chamber (beginning with that of the senators) that begins and ends the five-year presidential term. Congressional representatives, senators as well as deputies, can be re-elected immediately only once, but they could run again after a five-year electoral period has passed.

Chamber of senators

The Upper Chamber would have two senators from each department, while Callao, metropolitan Lima and Lima (Provincial) would be viewed as separate. This implies territorial representation, independent of the size of the division. There would be 52 senators, who would remain in their seats for five years. Eventually, in accord with advances in the regionalization process, the Senate’s representation could be organized as a function of regions instead of departments. The Senate’s renewal would occur by halves, once two and-one-half years of the presidential term have elapsed. Candidates would be via lists prepared by the political parties; the candidates would have to be older than 35 years and be born in Peru, and the electoral calculation for each department will use the proportional figure [cifra repartidora]. This chamber would review legislation approved by the Lower Chamber, and in general its legislative work should offer a unified vision of the interests of the country and of its various regions.
Chamber of deputies

This chamber would provide political representation in line with the size of the country’s population and that of the different territorial divisions. The idea is to elect a deputy for each 50,000 voters, which implies a total of 260 deputies. The candidacy would be via a political party or regional movement; candidates must be older than 25 years, and the deputies will be elected by means of a mixed system that combines the relative majority with proportional representation. This allows for both voters’ personal preferences and those of the parties that designate the lists to be taken into consideration. As in the Senate, the renewal is partial, by halves, at the same time as the election of the upper chamber.

Part of the total 260 deputies, approximately 70%, would be elected one per province by a relative majority of votes in the provinces that have more than 10,000 voters (failing that, several provinces would be combined); this satisfies the criteria of personal selection. The rest of the deputies would be elected by the use of the proportional representation system, adding up the votes that a list receives nationwide and applying a distribution element (again, the cifra repartidora) to define the number of deputies that a party or regional movement will have. Then, the seats would be distributed according to the size of the electoral population in each department, with at least one seat going to the smallest department. The candidates for this second half would be designated on lists prepared by the political parties and regional movements in such a way that the first in the lists that deputies obtain in each department would be elected. This would encourage consolidation of the parties and political movements.

Strengthening the parliamentary jurisdiction

In order for democracy to work well it is necessary for Congress to fulfill its legislative role and its role as the watchdog for the other state powers. Although the government may have a majority in Congress, it is fundamental that the autonomy of the parliamentary jurisdiction be respected. In particular, it is necessary to be precise about the extraordinary circumstances in which Congress could cede its legislative faculties to the executive. To avoid any possible replacement of the legislative branch by the executive in the former’s role of passing down laws that regulate the nation’s life, the types of legislation that can be covered by urgent decrees should be limited. At the same time, Congress should broaden its work to follow up the application of laws, both to ensure their effectiveness and to prevent any abuses that could arise.

In addition, it is necessary to reinforce the political control function that the legislative branch should discharge. Congress should participate effectively in the major decisions that shape the structure of governmental power. For example, it is necessary that Congress play a significant role in the investiture of the Council of Ministers, in the approval of the national budget, in the appointment of some senior authorities (president of the Central Bank, directors of regulatory agencies), in the investigation of other state bodies and powers, and in the overall supervision of the government’s political conduct. This implies achieving a difficult, but essential equilibrium between coordinating the activities of the Congress with the Executive Branch (and in particular with the office of the Prime Minister), on the one hand, and maintaining a high degree of autonomy for the parliament in relation to the other powers of state, on the other.

Reforming the electoral system

The central objective of the reform is to establish an autonomous electoral system that enjoys the confidence of all parties and political movements and that is able to organize and direct electoral processes impartially and efficiently. This reform is intimately linked to reforming the legislative branch and to the functioning of the parties and political movements that are the link between civil society and the political power.

For the electoral system to achieve legitimacy and to assure that democracy functions well, it is essential to have fair, transparent and stable electoral rules, with efficient and trustworthy electoral organisms. It is essential to avoid changing rules of the electoral game as a function of changes in the relationship of strength among actors on the political scene and according to the short-term interests of those exercising power at a particular moment. Reform of the electoral system demands, more than other aspects of reforming the state, a broad consensus among the wide range of political forces. And, it is important that the reform be effected at a time prudently distant from an electoral process, thereby avoiding that it be conditioned by political calculation.

In the medium term, the new electoral rules should lead to a political system with a limited number of strong, consolidated parties and movements, which would give greater stability and representativity to the political system nationwide. In terms
of local governments, the idea is to achieve something similar, seeking to have political movements that express the feeling of the citizenry and respond to its demands. In addition to the procedures for electing congressional representatives set out in the previous section, the reform of the electoral system embraces procedures for the presidential election, rules for the way parties and political movements function, the structure of electoral organisms and the standards that govern electoral campaigns.

**Presidential election**

The President of the Republic should be a person with the capacity for political direction, leadership and pulling people together, as should be the case with anyone who assumes the job of head of state. It is necessary to discourage candidacies in the name of improvised political organizations that do not have a track record; so, the candidates for president, first vice president and second vice president – one of which would be a woman – should be proposed by those political parties that have participated in electoral contests for at least ten years (even though it would be necessary to establish transitional procedures for the first elections under the new system). The President and the Vice-presidents would be elected for a five-year period. They could not be reelected immediately, but only after one presidential term has elapsed.

To be elected directly, the candidates of a presidential ticket should win more than half of the valid votes. If no candidate reaches that percentage, the election would pass to Congress, which would decide between those who achieve the first two relative majorities. Whoever is elected by the Congress should have a simple majority both in the Chamber of Deputies and the Senate. This would reflect more faithfully the feeling of voters and it would establish a better balance between the weight of the executive and the legislative in the nation’s political life. Moreover, it would encourage lasting coalitions between parties and political movements, which would have to negotiate and transact in both chambers to elect the President in the case that no candidate achieves an absolute majority. Owing to the fact that Congress will be renewed by 50% every two and one half years, the excessive influence of the presidential elections on the election of senators and deputies will be avoided.

**Parties and political movements**

Those who participate actively in the country’s political life should do so as members of stable political groups, that are capable of exercising political power efficiently and transparently, of rendering accounts to the citizenry and assuming the responsibility for managing the public sector. The episodic presence of ephemeral groups or improvised politicians whose behavior is frequently irresponsible should be avoided. For this, it is necessary to have a limited number of strong parties and political movements, capable of maintaining continuity and adopting a long-term political perspective. The legal framework for political parties should establish standards for their creation and disappearance, internal functioning and financing. Moreover, it should be possible for them to operate in a variety of ways to allow the citizenry to organize itself according to its own choosing. For example, there should be a distinction between political parties that operate nationally in all the departments and that can present candidates for the Presidency of the Republic and for the Senate, and the regional political movements that operate within a more limited geographical area (for example, in four or five departments) and that can present candidates for the directly elected deputies and for municipal and regional elections. Later on, in the section on civil society, there are additional details about the characteristics and functioning of the political parties (In particular, see Box 7.8)

**Foundation and disappearance of parties and movements**

To be registered, a political party should present a list of supporters equivalent to one percent of the number of inscriptions in the electoral registry. In the case of regional movements the list of supporters should exceed the one per cent of voters in the departments where the movement operates. Citizens may sign various lists since it is not a matter of an election.

Requirements for enrollment in the register of parties and political movements are: to have a doctrine and program for governing, to have statutes and regulations that conform to the existing legal framework, to accredit the leaders before the electoral bodies, and to have a national office and offices in at least 18 departments. The requirements for establishing and registering regional movements would be similar, except that they would have to have a presence in the departments where they operate.

A political party forfeits its registration when it does not obtain a vote exceeding 5% of total valid votes in the election for the Chamber of Deputies; a regional movement loses it when it does not obtain at least 10% of the valid votes in the departments where it operates. The parties and movement will
also lose their registration if they do not take part in electoral processes, whether parliamentary or municipal. In the latter case, a political party should participate in at least one third of the areas being contested while a regional movement should do so in half of the areas. These dispositions seek to avoid the participation of ephemeral parties with no political responsibility in nationwide electoral contests. For municipal elections, the requirements for registering political movements will be less demanding so as to stimulate citizens to participate in local political affairs.

**Standards for internal functioning**

Even though legal norms should leave decisions about organizational structure and operating procedures to the discretion of party or political movement members, these should match the criteria that guarantee that democratic practices prevail inside the political group. Designation of party leaders and candidates for elections should be by internal election procedures, which can be an open primary election or closed to members of the party, mechanisms for indirect election and other procedures.

To support more active involvement of women in the nation’s political life, the parties should ensure that at least 30% of candidates are women when they designate candidates for national elections. Similar criteria would be employed for the regional movements in their geographical sphere of action. Each party or movement will establish the categories of membership and the obligations and rights associated with each.

**Financing the parties**

It is necessary to establish standards that guarantee greater transparency as to the sources of financing and the use of financial resources in order to ensure that parties and political movements are independent. The experience of other countries shows that when the State participates in financing the political parties it can contribute significantly to reducing the excessive influence of people, companies and other organizations who donate money for the electoral campaigns and underwrite party expenses.

With a medium and long-term perspective, it is essential to advance toward a situation in which the income of parties and political movements is covered mainly by public resources. To allocate public resources for this purpose fairly, half the available funds can be assigned in equal shares among the legally registered parties, and the other half in proportion to the number of votes received in the last elections. Something similar would be done with the resources available for regional movements. Funds would be handed over annually, and it would be possible even to consider an extraordinary allocation in the months prior to the elections.

The political parties and regional movements will not be able to receive income from abroad or from private companies; and the non-state financing would be limited to individuals and campaign committees composed of citizens. In both cases, limits on the amounts that individuals and committees can contribute will be established. The committees should register before the electoral authorities. Political parties will be obliged to present a detailed and audited report on their income and expenses to the electoral body, and that entity will establish a special permanent commission to supervise and control the use of funds by the parties and political movements.

**Electoral campaigns**

The norms that govern management of electoral processes will be oriented toward achieving greater equity among the candidates and to ensure that elections are clean and transparent. For this, it is necessary to limit the influence that various state entities can exercise in running the electoral processes.

In particular, it is necessary to reduce the presence that the Armed Forces have in electoral processes at present. There is no reason for them to guard the voting centers, a job that should be given to the National Police: there is even less reason for them to receive a copy of the vote tally sheet. In addition, although public officials are prohibited from participating in electoral campaigns by using the advantages and prerogatives conferred on them by their positions, the law should be more severe and the sanctions exemplary, including removal from office, for those who break the rules. Regarding the President of the Republic, though it is clear that (s)he cannot participate in elections because an immediate re-election is not permitted, the President’s capacity to influence in favor of candidates in one or another parties should be limited. Among other things, the President should be prohibited from personally inaugurating public works during the year prior to general elections or making any kind of gift or donation directly to the population.

The media and polling companies that survey voting intentions play a key role in the electoral processes; hence, their role in the campaigns should
be regulated. Citizens should be guaranteed access to truthful and impartial information, which will permit them to build their capacity for democratic decisionmaking. An independent and representative citizen commission will evaluate the behavior and performance of the media and pollsters during the campaign. The state powers, political parties and movements, civil society organizations and associations that represent the media and pollsters would designate members of the commission. The results of this evaluation would be widely disseminated by the media themselves. Thus, citizens will have a better appreciation of the biases and preferences of the different media, allowing them to judge their impartiality and the quality of information they receive.

Electoral organisms and processes

To guarantee that electoral processes are clean and credible, it is necessary to have a strong, autonomous judiciary capable of resisting political pressures of every kind. The 1993 division of the National Electoral Board into three institutions weakened the electoral authorities and provoked a series of conflicts among them. The three electoral bodies should be reduced to two: the National Electoral Board (JNE), that would be in charge of generally running the elections and administering electoral justice; and the National Organization of Electoral Processes (ONPE), that would be in charge of organizing and carrying out the elections. The National Registry for Identity and Civil Status (RENIEC) would become part of ONPE.

Members of the JNE would be designated for four years by the Congress, the judiciary and representative organizations of the academic world and civil society. No member of the JNE may have participated directly in the government in power. Also, members of JNE will designate the head of ONPE. The budget for the electoral bodies will be approved as a priority by the Congress and delivered without delay at the beginning of the year by the Ministry of Finance. This will allow the electoral organisms to maintain their autonomy and to avoid the pressures that the executive branch could exercise over them.

During the preparation for and realization of the elections, the electoral bodies will provide all necessary facilities to pollwatchers and electoral observers. The latter should be registered in the JNE and will have the opportunity to observe all the acts of the electoral process. The ONPE will be responsible for training members of the voting tables and the party representatives. After the count, copies of the minute [acta] will be given to members of the electoral organisms, to party representatives and observer groups. The ONPE will publish its first report on the election results when one-fifth of the official tally is complete, thereafter and periodically indicating the partial results and percentage of votes left to count.

For electoral processes to proceed well requires a certain degree of knowledge and experience on the part of all who participate in the process. The electoral bodies should disseminate widely the procedures to be followed during the election itself and the count. It should promote and coordinate with the parties and movements, election observer institutions and media, among others, the training initiatives for candidates’ representatives and members of voting tables and information programs for voters. The electoral system’s bodies will sponsor and promote elections in schools, universities, unions, trade associations and associations of every kind by giving support and advice about how to carry out an election appropriately. Also, they should collaborate closely in organizing the internal and primary elections of the political parties. Continual participation in electoral processes in every corner of national life will help strengthen democratic habits and will motivate all citizens to actively defend democracy.

Deconcentration, decentralization and regionalization

The excessively centralized nature of the Peruvian state that has existed since its founding – which worsened overwhelmingly during the 1990s – is the big challenge for distributing government jurisdictions and financial resources among the national, regional and local levels. In addition to responding to a long-postponed desire, a legitimate, sustained and efficacious decentralization process will permit a better use of the national territory, improved use of natural resources, a more balanced distribution of productive activities and an effective participation by citizens in the country’s political life. To move in this direction requires a strong political will and persistence, otherwise it will not be possible to override the barriers and interests that impede transfer of the central government’s functions and activities to the regional and local governments.

The deconcentration, decentralization and regionalization processes should be carried out progressively and gradually, avoiding leaps and brusque changes that only produce unsustainable advances followed by returns to “centralism.” Two features should be kept in mind for this purpose: the nature of the government activities to be decentralized, and
the situation and capacity of local and regional governments to assume responsibility for them. The transfer of jurisdictions and resources implies a laborious period of apprenticeship during which many errors may be committed. However, this should not lead to questioning or suspending decentralization, no matter how problematical and uncertain it may seem to its implementation in the short term. For this reason, it is necessary to generate a broad consensus among representatives of political organizations, the public sector, private companies and civil society organizations to enable these processes to be sustained in the medium and long term.

Deconcentration should be aimed at strengthening the regional and departmental directorates in the ministries as a first step to create a critical mass of public professional, technical and management capacity in regional and local spaces that can later support decentralization and regionalization. In this sense, one of the problems to be resolved in the shortest possible term is the lack of articulation among the departmental and regional directorates, on the one hand, and the sectoral ministries, on the other. In many cases, these entities are attached to sectoral ministries, but in terms of budget and administration they depend on the Transitory Councils of Regional Administration (CTAR, in their Spanish initials). The CTARs, in turn, depend on the Ministry of the Presidency. To correct this situation it is necessary to deactivate the CTARs and reinstate the departmental and regional directorates to their respective ministries. Paradoxically, a prior step that could be viewed as "recentralizing" is needed to move toward deconcentrating, decentralizing and regionalizing.

Decentralization implies transferring functions of the central government to local governments, and it presents fewer difficulties than constituting and defining the attributes of the regional governments. The first task in decentralizing consists in defining clearly the distribution of jurisdictions, attributes and responsibilities for each one of the three government levels, reserving for the highest instances those activities that cannot be efficiently carried out in the local or regional orbit. The transfer of functions should be accompanied by measures to channel or generate financial resources for local governments and programs of technical assistance to reinforce their management capacity. On the other hand, some provincial and district municipalities have experience and resources, and they have been successful in performing their functions; therefore, the decentralization process could be articulated around them.

Regionalization implies not just a transfer of functions, but also relinquishing decisionmaking power to establish standards, generate and administer resources. It is a more complex and difficult process that should harmonize the legitimate aspirations of different regions of the country with the need to maintain national unity; and at the same time to establish a delicate balance between the functions and competencies of the central government and those of the regional and local governments. In addition to the constitutional mandate, regionalization should keep in mind cultural and symbolic factors that confer their own identity to different parts of the national territory, pay attention to geographic and geo-economic features of the space (Chapter 6) and attend to the particular economic interests of each local area.

Priorities for decentralization

Once the distribution of competencies, attributes and responsibilities of the different government levels is defined, it is essential to establish priorities and a sequence for transferring from the central government those that will correspond to the regional and local governments. According to the new structure of the Executive Branch (Figure 7.2), the Secretary of State for Government Coordination would be in charge of this task, identifying funding sources to reinforce the capacity of regional and local governments and the design of accountability mechanisms for the executing bodies (Box 7.2).

In order to establish priorities and a sequence of activities to decentralize, three criteria must be considered: heterogeneity and diversity intrinsic to the activity, the quantity of local information required for adequate management, and the complexity of the technical and administrative management. In this way, activities that are highly heterogeneous, require a great deal of local information and do not demand a high degree of management ability could be the first to be decentralized. Homogeneous activities, that demand little local information and whose complexity require a very sophisticated management would stay with the central government. Highly heterogeneous activities, in need of significant local information and with a high requirement for management capacity could be decentralized initially and decentralized later (Box 7.3)

Options for regionalization

There are two strategic options to put a gradual regionalization process into practice. They should be tightly linked to consolidating and articulating the regional economic spaces and decisions on territorial organization (Chapter 6). The first would give priority to creating different regions by means
of fortifying and agglutinating provincial governments, and the second would give priority to creating directly elected regional governments, either in each of the departments or grouping together several departments.

Under the first option, the political and administrative regionalization would depend on provincial municipalities’ will and ability to collaborate. The initiative to propose how regions would be drawn up would be in the hands of provincial mayors, in close collaboration with the Secretary of State for Government Coordination. This Secretary of State would set out the minimum requirements for a group of provinces to become a region, and (s)he would also establish incentives to motivate collaboration among provincial municipalities (for example, by assigning additional budget resources to the group of provincial municipalities that agree to establish a region). In a first instance, the jurisdictions and resources of the regional governments would be defined, adding an important part of what provincial municipalities have under their control and for their use. Functions and additional resources would then be transferred to them from the central government.

As soon as several provinces reach agreement on constituting a region, a Regional Assembly would be established, made up of provincial mayors and representatives of the aldermen of provincial municipalities in proportion to the population of each. The Regional Assembly would be responsible for the election from within its members of a regional coordinator and the designation of the region’s executive secretary, who should be a professional of recognized prestige and experience. These assemblies would be empowered to fiscalize the management of resources within their region, approve regional programs and projects, and propose spending priorities. To support the work of the regional assemblies a Consultative Council would be created, made up of representatives of the district mayors, regional and departmental directorates of the ministries, Chambers of Commerce, worker and peasant organizations, and the professional associations of the area. The Secretary of State for Government Coordination would provide technical and administrative support for establishing these assemblies and the consultative councils.

The second option consists in giving priority to the direct election of regional governments and the strengthening of decentralized regional instances. In this option, Congress, requested by the executive branch, would define the sphere and structure of each one of the regional governments and the procedures for electing this authorities. For example, it could begin with the current departments and define regions by uniting two or more of them. In this case, the dependencies of the central government that operate in those departments would turn into the nuclei of regional management, with the support of their respective ministry or agency and with that of the secretary for Government Coordination. Once the regional authorities are elected, the regional management nuclei would then report to them. The first task of the regional authorities would consist in defining the spheres of specific jurisdiction for the region and differentiating them from those that belong to the central government and the provincial and district municipalities.

In either of the two options, it is necessary that the jurisdictions and functions of the regional governments be managed in accordance with criteria that are truly regional, that should transcend the interests and perspectives of the municipal governments and specific localities. As an illustration, a list of jurisdictions and appropriate functions for the regional governments would include the following:

- Administering the sewer and drainage systems.
- Protecting the environment and conserving green areas.
- Improving the territory and participating in watershed management.
- Providing power that is not part of the interconnected system.
- Constructing, maintaining, repairing and rehabilitating roadways (streets, neighborhood roads, rural roads, quays, airports)
- Constructing community infrastructure (medical posts, schools, community premises)
- Administering educational establishments and health service networks.
- Combating poverty and providing social assistance.
- Supporting security organizations and controlling traffic.
- Preventing risks and emergencies.
- Promoting regional and local development (productive activities and services).
- Promoting cultural, sport and recreational activities.
Decentralizing the Legislative and Judicial Branches

The transfer of authority to regional and local levels mainly involves the executive branch. Nonetheless, it should be complemented with measures to decentralize the legislative and judicial powers.

The reform of the legislative branch should support the processes of decentralization and regionalization. A transfer of power as important as that assumed by these processes cannot be sustained over time if there is not sufficient capacity for political pressure by those benefited in Congress. The proposed changes to the structure of the legislative branch and the suggested modifications to the electoral system—a Senate with departmental representatives (and eventually from the regions), elected deputies in each of the provinces or groups of provinces with more than 10,000 voters, the possibility of creating regional political movements—ensure that interests favorable to decentralization and regionalization will have a significant presence in Congress.

To decentralize the judiciary requires strengthening the higher ("superior") courts located in the departments and regions, broadening their capacity to deal with legal and juridical matters in the territory they cover. Fewer and fewer cases should reach the Supreme Court, and the greatest number of controversies and conflicts should be resolved at the lowest possible level. Moreover, the administration of justice requires information about the surroundings and the particular situation in which conflicts arise; this can be achieved via decentralization.

Reform of the Private Sector

The second series of threads in the warp of Peru's social fabric that must be rewoven during the next two decades refers to the reform of private sector companies and institutions. The objective of this reform is to make private companies operate more efficiently and fulfill their function of creating wealth. For this to happen, a change of mentality is necessary that would overcome the persistent rent-seeking attitudes and lead businesses to invest their own capital, assuming reasonable risks and persevering in entrepreneurial initiatives.

The central role the private sector should play in creating wealth must be accompanied by a greater sense of social responsibility on the part of large companies, a commitment by foreign investors to the country’s economic and social development, a change in the often closed and informal

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<thead>
<tr>
<th>TABLE 7.2</th>
<th>Decentralization, deconcentration and type of public management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of public sector activity</strong></td>
<td><strong>Financing sources</strong></td>
</tr>
<tr>
<td>Centralized</td>
<td>National Treasury</td>
</tr>
<tr>
<td>Deconcentrated</td>
<td>National Treasury</td>
</tr>
<tr>
<td>Decentralized</td>
<td>Taxes at regional and local level, complemented by central government transfers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 7.3</th>
<th>Criteria for the sequence for decentralization and deconcentration. Illustrative examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples of government activities</strong></td>
<td><strong>Intrinsic heterogeneity and diversity</strong></td>
</tr>
<tr>
<td>Tax collection</td>
<td>low</td>
</tr>
<tr>
<td>Health service provision</td>
<td>medium</td>
</tr>
<tr>
<td>Managing primary or national road network</td>
<td>low</td>
</tr>
<tr>
<td>Maintenance of rural and/or neighborhood roads</td>
<td>medium</td>
</tr>
<tr>
<td>Regulating air transport</td>
<td>low</td>
</tr>
<tr>
<td>Micro development projects</td>
<td>high</td>
</tr>
<tr>
<td>Civil defense</td>
<td>high</td>
</tr>
<tr>
<td>Regulating ocean biomass</td>
<td>medium</td>
</tr>
<tr>
<td>Construction of educational infrastructure</td>
<td>low</td>
</tr>
<tr>
<td>Provision of minor irrigation infrastructure</td>
<td>medium</td>
</tr>
</tbody>
</table>
The medium-sized company (from 21 to 99 employees) can become the major player in productive transformation, but it needs to modernize its management processes; this is particularly true of family companies. In addition to the better economic results and greater competitiveness that come from more efficient management, a lack of transparency in many family companies makes obtaining credit difficult. One illustrative piece of data concerning the limited impact of medium-size companies on national development is that they employ only 10% of the economically active population. In other countries, this is a dynamic and diverse sector that generates a large quantity of jobs, which means that Peru requires a larger number of efficient, competitive medium-size companies with potential to project themselves abroad.

There is a relatively limited number of large companies (those that employ one hundred or more people), which are found in sectors such as mining, financial services, and some subsectors of industry and trade, and telecommunications. They employ around 20% of the workforce (Box 7.4) and they generate a very significant part of the national product, tax collection and exports. The substantial economic impact that the activities of a reduced number of large companies has on the country’s economy shows the importance of actively promoting a greater sense of social responsibility for broadening its contribution to national development.

Starting with an open, respectful and cordial dialogue with representatives of the different kinds of companies, it is essential that government authorities improve the legal framework and political guidelines that govern and orient private sector behavior. We are talking about designing clearer and more consistent rules of the game that consider not just the country’s development needs but the demands of international competition, that would make investing in Peru an attractive option for domestic and foreign businessmen.

As a prior step to improving the legal framework and policies, we should evaluate the experience of the last decade with privatizations, legal dispositions to stimulate foreign investment and the exception of some norms on environmental protection, among other government initiatives intended to attract foreign capital and promote national investment. This evaluation, that should be done without bias or passion, will make it possible to identify what aspects should be modified to achieve an adequate balance between the interests of companies that seek private profit, and the interests of the state, which should seek benefits and progress for society at large.

However, it is necessary to point out that the first obligation and social responsibility of a company is to generate profits, save, invest and create wealth for those associated with it, its immediate environment and the country. Therefore, reforms in the private sector should be oriented, above all, to creating conditions for domestic and foreign companies of every size to be successful and fulfill their central function – to generate prosperity.
The large company

The big foreign and domestic companies should assume and support a strong sense of social responsibility to Peru and to local development. This should be expressed by a simultaneous search for benefits for the company and the community. Some large companies have behaved this way for a long time, but it is essential to generalize this practice to all companies, owing principally to their significant weight in the nation’s economic life. This is a tendency that has been reaffirmed in the international sphere, among other reasons because globalization has exposed big companies to the scrutiny of non-government organizations, that have an influence on the decisions of investors (Box 7.4).

One issue that should be widely debated is so-called “windfall profits,” that do not depend primarily on the quality of the investment, management or the company’s productivity, but on exceptionally favorable conditions related to the context in which the company is operating. Some examples would be sudden increases in oil prices due to violent conflicts in production areas, of price increases for agro-livestock exports due to changes in climatic conditions (droughts, freezes, floods); or very low production costs related to the geophysical characteristics of the areas in which mining companies operate.

Negotiations between big foreign companies and the government, in which investors are usually given a series of economic and legal incentives, should take into consideration a counterpart reinvestment in the country when windfall profits are made that surpass the level previously agreed upon between the government and the investor. This reinvestment could be made by the same company in selected sectors, programs and projects or used to promote social development – possibly via philanthropic organizations associated with the company, associations linked to local and regional governments and civil society organizations. But if some of the options are not realized, there would be a tax on windfall profits. To put initiatives of this kind into practice, it is necessary to start a dialogue between government representatives and large companies to set reasonable conditions and facilitate a wide variety of productive investment options in the country or the community where the company is located.

The medium-sized company

Medium-sized companies, particularly in manufacturing and other activities with a high value added, should play a central role in productive trans-formation, competitiveness and the economic environment. These companies are generally in better conditions than small and micro-companies to generate surpluses, invest and to sustain growth.

To promote capital accumulation in medium-sized companies it is necessary to facilitate access to the capital market as well as to offer incentives for reinvesting profits. For example, listing shares of these companies in the stock market could be stimulated by creating a second-tier listing with less rigid conditions than those currently stipulated. Considering the persistent problems of excessive debt and access to credit, this option could be attractive to stimulate changes in business administration models and information management, since it would allow companies access to investment resources. At the same time, this would fortify company capital and net worth, thereby diminishing the weight of banking debt and other financing sources.

On the other hand, it is essential to promote the transformation of small companies into medium-sized companies by eliminating the obstacles that impede their growth and supporting the formation of strategic alliances. This would make it possible to achieve economies of scale and sphere, reduce fixed costs and improve competitiveness in many subsectors, especially in manufacturing. In particular, it is essential to promote the creation of clusters of companies. This will make it possible to put subcontracting programs with larger companies into practice; it will help them obtain financing under more favorable conditions; and, it will facilitate better access to information (on technology, markets, prices, among other things), whose elevated cost usually places it beyond the reach of a single firm. Moreover, as was indicated in Chapter 3, the creation of company clusters would facilitate access to international markets that require high production volumes.

<table>
<thead>
<tr>
<th>Employees per establishment</th>
<th>Total number of workers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total EAP</td>
<td>6,592,065</td>
<td>100.0</td>
</tr>
<tr>
<td>1 to 9</td>
<td>4,355,166</td>
<td>66.1</td>
</tr>
<tr>
<td>10 to 49</td>
<td>695,760</td>
<td>10.6</td>
</tr>
<tr>
<td>50 to 99</td>
<td>152,206</td>
<td>2.3</td>
</tr>
<tr>
<td>100 to 499</td>
<td>342,953</td>
<td>5.2</td>
</tr>
<tr>
<td>500 and more</td>
<td>978,775</td>
<td>14.8</td>
</tr>
<tr>
<td>Other</td>
<td>67,775</td>
<td>1.0</td>
</tr>
</tbody>
</table>
compliance with strict specifications and an elevated, uniform level of quality.

The majority of medium-sized firms are family-based, so that the virtues and defects of family companies should be taken into consideration when designing private sector promotional policies. Even though it is clear that the family environment offers ideal conditions for companies to be set up and to enjoy initial success, it is also true that the non-transparent and often closed style of management typical of family businesses, and the problems associated with succession, become obstacles to their growth and viability.

Once family businesses get through their initial stage, it is important to adopt a professional focus for management and separate company management from family relationships. Moreover, it may be useful to broaden and diversify shareholding by seeking to operate in a more transparent and efficient manner. Thus, the medium-sized companies will be able to access a greater variety of financing sources and attract high level managers with experience and specialized knowledge, which will allow them to grow, generate profits, secure the owner family’s economic future and make a greater impact on the country’s economic life.

**Small and micro companies**

Small and micro companies play an important social role in addition to their economic role. They provide income sources for the majority of the country’s workers, even though their low productivity levels and informal nature make the jobs they generate poorly paid and precarious. Moreover, they have serious management limitations; they lack the capacity to generate surpluses in a sustained fashion, and they do not pay taxes.

A first initiative to overcome this situation consists in encouraging small and micro enterprises to become “formal” by providing incentives and support services in exchange for their turning into formal production units, fulfilling their tax obligations and growing in a sustained fashion. As indicated in Chapter 4 when discussing self-generated employment, the process of becoming formal can be considered as a “temporary public good” that would justify state support. At the same time, it is necessary to simplify the tax system and reduce taxes so as to reduce the cost of leaving informality behind.

The central government and local governments, in coordination with business guilds, non-governmental organizations, academic centers and private consulting companies, should provide support services to small and micro enterprise. These services should embrace provision of information about market opportunities, technical assistance programs and administrative training, access to financing sources, advice on quality control and equipment maintenance, and provision of physical infrastructure.

The great majority of small and micro enterprises lack market information (on potential clients, competitors, suppliers), above all when seeking to place products in the external market. The information modules established in various cities by the Ministry of Industry, Tourism, Integration and International Trade Negotiations (MITINCI) at the end of the 1990s, provide valuable experience in this regard and demonstrate the usefulness of these services. Advances in telecommunications, information technologies and tele-education methods provide opportunities to organize technical and administrative training programs aimed at improving the productivity of small and micro businesses. These programs could even reach the most remote locations, offering consulting services with specialists in addition to educational programs. Something similar can be set up for quality control, whose importance is crucial for companies wishing to export.

Financing limitations significantly affect the operations of small and micro enterprises, which generally only have access to informal moneylenders in conditions that border on usury. It is essential to introduce this kind of company to formal financing sources, particularly to commercial banking and solidarity-type financial institutions (municipal savings institutions, financial cooperatives). Access to these financing sources, whose cost is significantly less than that of moneylenders, would be provided as a counterpart to the companies’ becoming formal, and they could count on state support via second tier development banks and risk-reducing mechanisms for loans awarded by private banks. In this sense, the experience of a great number of non-governmental organizations in providing credit to small and micro enterprises could be used to good advantage. For example, it is possible to use the mechanisms of solidarity guarantees and networks to attend to clients that some non-governmental organizations and local associations have implemented in order to improve credit access.

Providing physical infrastructure services, particularly through industrial parks that have electrical power, water and sewers and access to transportation and buildings, can be a great help for small companies which usually do not have the resources to invest in physical infrastructure by themselves.
In the context of the globalization process (Chapter 2), companies that operate in the international sphere face two major challenges: to maintain their position in markets that are ever more competitive and to respond to the social pressures of consumers and civil society. During the past decade the number of large transnational companies that respond to these two challenges has been growing. They try to reconcile competition with social responsibility by assuming the role of citizen-companies committed to social development and environmental protection (See example of Shell/Mobil consortium in Chapter 5, Box 5.5).

Companies can express their commitment to development in their environment in different ways:

**Philanthropy.** Is based mainly on the company’s ethical commitment with society. It consists of using a portion of profits to finance social or cultural development projects, without any expectation of benefits for the company and frequently without possibilities of measuring the impact of these actions.

**Social investment.** Is based on the premise that the company will receive indirect benefits from its actions in support of the community. The resources assigned for this purpose are considered an investment to facilitate the company’s operations and to improve its image and reputation. Generally, they are part of the operating expenses and cost structure.

**Social responsibility.** Entails integrating philanthropy with social investment, seeking to ensure the loyalty of the community and consumers, increase work productivity and guarantee business success with a medium- and long-term view. The resources to finance social responsibility initiatives come from operating expenses as well as from profits.

Among the large quantity of business initiatives of social responsibility that arose during the 1990s in the worldwide sphere there is, for example, the group of “Philippine Companies for Social Progress,” which brings together more than 180 companies with 3,000 community projects that benefit two million Filipinos; the “National Business Initiative for Growth, Development and Democracy” in South Africa, which has close to 130 participating companies that support a variety of educational, nutrition, health and housing activities; and the group “Business Action for Social Responsibility” in the United States, which has more than 1,000 participating companies in a wide range of activities to support the community. Moreover, in the United States, many successful business executives have established foundations by donating shares of their companies. The best known are Bill Gates, Ted Turner and George Soros, who have channeled hundreds of millions of dollars per year to charitable activities.

A study of 120 Peruvian companies with total sales of US$7.5 billion in 1997 showed that they devoted about 0.75% of their sales to activities of social investment, many of them in projects that benefit the company as much as the community located within the company’s sphere of influence (transportation routes, electricity distribution networks, water supply and so on).

Another study, that covered 30 mining companies that operate in Peru, with total income of US$2.67 billion and profits of US$540 million in 1996, indicates that these companies earmarked about US$21 million for social investment activities, which represents 3.8% of their profits. The average contribution per company is US$231,000, even though three of them – Centomin, Yanacocha and Antamina – account for 81% of the total amount. All companies in the sample built highways that benefit the communities; two thirds of them supply electrical power to neighboring communities; 40% help with potable water and sewer services; and, close to half support the construction of public service centers. Moreover, almost three-quarters of these companies have a budget for developing their workers. Many of these works are considered part of the companies’ operating costs.

However, it is necessary to point out that mining companies enjoy a series of tax benefits that have led to a certain imbalance between their economic importance and the payment of taxes. While mining companies contributed 11% of GDP in 1998, their tax payments totaled 4.23% of revenue collected by the National Superintendency for Tax Administration (SUNAT).

The experience of some municipal industrial parks (for example, Villa El Salvador in Lima) shows that this is a very effective support mechanism and can play an important role in productive decentralization and regional and local development. Something similar occurs with business incubators established by centers of higher education, in which all kind of support is given to small companies that work with advanced technology; these are usually set up by young professionals.

As indicated in Chapter 3, the sub-contracting mechanisms associated with creating business clusters play a very important role in promoting the
small company, just as programs of state acquisitions do. However, in the latter case it is necessary to avoid using the programs for political ends and to avoid excessive dependency on state resources. Hence, state acquisition programs should be temporary and be accompanied with training and technical assistance initiatives.

Unlike the small companies that have the possibility of growing and consolidating, it is very likely that micro enterprises will continue to be mainly a refuge against unemployment. However, training and skill-building programs and access to credit will allow a growing number of micro enterprises to generate surpluses and to transform themselves from survival mechanisms into viable small companies. This will allow them to save, invest and improve the quality of life for those who are involved with them.

**Reform of civil society organizations**

The third group of threads in the warp of Peru’s social fabric to be rewoven during the next two decades refers to reforming the institutions of civil society. Civil society is made up of organized networks and patterns of interrelationship that come about as a result of voluntary human relationships. It occupies the space situated between the actions realized by the State and those of a strictly economic nature carried out by private companies operating in the market place. Civil society associates in ways that range from intimate social ties such as the family to large social movements and nonprofit civil associations, business guilds and professional organizations. In all these bodies that make up civil society it is possible to generate the means for concerted action based on directed consensuses. In this way, in addition to fulfilling a series of operating functions, the organizations of civil society can become engines for a democratic culture and democratic practices and habits.

**Civil society**

Civil society has become very important in the life of the nation during the last three decades. For example, a series of initiatives by voluntary organizations to improve living conditions in the poorest sectors of the population have made it possible to overcome the limitations of state action and the lack of private sector energy. At the same time, they have demonstrated the efficacy of joint action. This can be seen clearly in emergency situations when it is necessary to deal with hunger, unemployment and violence; in cases of human rights violations, when it is essential to defend citizens from abuses committed by subversive groups and by the armed forces and police; and when excessive centralism and neglect of large areas in the country’s interior have awakened a regionalist conscience and set in motion initiatives to promote local interests. Little is expected of the State, and the precarious situation of the private sector is recognized; this opens up spaces for joint actions — articulated around voluntary associations — that are features of civil society.

The civil society organizations that have emerged in Peru in the last thirty years have established a presence in practically all spheres of the country’s public life. Their initial articulation took place, as a general rule, around specific and often immediate interests, such as combating hunger, labor complaints, professional activity, promoting trade union interests and defending human rights and democracy. However, these organizations have slowly broadened their sphere of action, and many of them have greatly surpassed their initial objectives and mandates.

Despite having arisen from specific interests or needs, many civil organizations are beginning to take on great importance in national life. For example, community kitchens (“comedores populares”) have gradually managed to become valid interlocutors with the State, churches and non-governmental organizations (NGOs), and their activities at a national level have become one of the major means to channel important resources for social assistance. Some business guilds are beginning to have a major influence on shaping public opinion and political decision-making by creating public spaces for debate on economic and political subjects. Young people’s organizations have returned to the national scene, and groups of university students play an important role in promoting democracy. Various organizations linked to human rights protection, to freedom of expression, electoral observation and environmental conservation have projected their activities into the international sphere, and now play a very important role in shaping the foreign perception of Peru. Likewise, many academic institutions and those for social work have managed to create a space to influence public opinion and have become a source of ideas and political proposals.

At the start of the 21st century new prospects open up for these organizations. The convergence of efforts toward common objectives, a fundamental characteristic of civil society organizations, has provided a rich experience and invaluable lessons on what voluntary organizations can achieve. To extend this consciousness-raising to broader fields, and in particular to political action and alter-
native ways of providing goods and services, requires only a change of perspective and a commitment by their members. Peru’s civil organizations should see themselves as major actors in the process of progressing toward a desired future and the notion of common good. Civil society’s renewed sense of being a protagonist should encourage a great variety of autonomous ways for social articulation to emerge and consolidate, and to stimulate them to become agents of social democratization and citizen participation.

Nonetheless, the processes of diversification, articulation and consolidation by civil organizations face a series of problems. First, there is scant interest and disposition by those who have political power and control public sector bodies to establish a constructive, non-manipulative dialogue with civil organizations, especially with grassroots organizations. This makes it very difficult for the State and civil society to collaborate effectively, and it weakens the latter’s negotiating capacity. Moreover, it keeps interests from being reconciled and political agreements freely reached that would reinforce democratic institutions and promote political stability.

Another group of problems is associated with the internal weaknesses of civil society organizations. Many of them ought to be more representative, establish means to be accountable, create independent mechanisms to evaluate their performance, be more efficient and transparent in managing resources, and maintain their autonomy in the face of financing sources. Only democratic and transparent behavior will allow them to articulate with efficacy and legitimacy the wide range of interests they represent, to later project them onto the national political scene.

A plural civil society

During the decade of the 1990s, the process of transforming civil society that had been underway since the mid-sixties accelerated. Peru’s civil society became more open, fluid and plural, in contrast with the more limited and closed character it had three decades ago. Charitable and beneficent organizations devoted to society work, radical and demand-based grassroots organizations, and private sector trade associations focused tightly on business interests gave way to a broader range of initiatives and demands of the civil society. In some cases new organizations arose, some of them stimulated by state programs (committees of the Glass of Milk program), in others around religious bodies (mothers’ clubs), and in some cases as a response to problems created by the state or private sector organizations to defend human rights, protect consumers or the environment. For their part, bodies that had existed long before (business trade guilds, professional associations, academic centers and those for development promotion, student movements) renewed themselves and broadened their spheres of action to adapt themselves to a new national and international context. At the same time, citizen demands channeled through civil society organizations increased, in part due to the weakness of political parties and movements. In this way, a plural, active and influential civil society came about.

However, civil society’s plural organizations are associated with fragmentation, the proliferation of initiatives and the danger of creating a cacophony of demands. This is the consequence of the multiple interests, many of them opposed to each other, that arise in a society as diverse as Peru’s. Hence, even though civil organizations can and should play a very important role in formulating and defending the interests of different social groups, they are not a substitute for political parties and movements whose function is, precisely, to articulate, process and respond to citizen demands by structuring coherent political programs.

The popular organizations (community kitchens, neighborhood associations, mothers clubs, Glass of Milk committees and residents associations) play a very important role in the life of Peruvian society’s poorest groups. Many of them arose from specific initiatives and in response to emergency situations, but they were consolidated gradually as a way to confront some of the gravest consequences of the economic crisis and poverty. Now they have become not just political participants but also the means to channel social support provided by the state and international aid. For example, the community kitchens and Glass of Milk committees provide services for distributing and administering food assistance to large sections of the national population (that, according to some estimates, reaches up to 40% of Peruvian families). Other organizations, such as the executive nuclei for Foncodes in the communities where it operates, have become administrators of resources and executors of small production and physical infrastructure projects (Chapter 4, Box 4.13). Other grassroots organizations participate actively in programs for labor training and technical assistance for micro-enterprises. However, grassroots organizations are not exempt from problems. In many cases they have lost their autonomy and have become dependent on government agencies that deliver financial resources and food assistance in exchange for demonstrations of political support. Moreover, internal problems are frequent, as is authoritarian behavior by some leaders, a lack of trust regard-
ing financial management and accusations of favoritism in awarding undue benefits to some members.

Despite the difficulties they face and their precarious economic situation, the peasant organizations and communities continue to represent the economic, labor and cultural interests of an important sector of the country’s rural population. The organizational and social features that have allowed many of these communities to survive as autonomous economic and cultural entities (through solidarity, mutual help, collective work, internal democracy) have been injected into local and regional associations and organisms. Even though the organic and ideological relationship that they maintained with the big national agrarian headquarters has been somewhat lost, the rural grassroots associations (producer committees, irrigation boards) continue to be important actors in the new political and economic relationship that the rural population has established with the State and the market. During the decade of the 1990s the state ceased to intervene directly in promoting business associations, in sales of agricultural products, in determining prices and providing agricultural credit. Peasant organizations and trade associations are responding to new challenges, in accordance with their possibilities, by assuming some of the functions associated with private companies and community organizations for producing and selling products, construction and maintenance of infrastructure, among other activities.

The peasant militias, that initially arose as a response to cattle rustling and turned into a means of defense against Shining Path terrorism, constitute a special example of organization in the rural sphere. Even though the terrorist threat has disappeared in most parts of the country, many peasant militias are still active. There are both opportunities and problems associated with the search for a new role to play since the defeat of terrorism.

During recent years one can perceive a renewed energy in local governments and neighborhood organization, both in the country’s interior and in metropolitan Lima, partly as a response by the population and local governments to the lack of representivity in the current political system. Various municipalities have associated to present their demands jointly to the central government and to talk with representatives of various state agencies. Some local governments have understood the advantages of supporting the creation of non-governmental organizations and working with them, particularly in the face of the inadequate resources available to them and the possibility of channeling additional resources through these organizations. The planning tables created in some municipalities in Cajamarca and other departments at the end of the 1980s and during the 1990s are testimony to these joint initiatives of local governments and civil society organizations.

In parallel, entities have emerged to organize citizens to participate in municipal governments with a view to improving local development prospects. Apart from the planning groups, there are neighborhood organizations interested in improving physical infrastructure and services; associations of small businesses interested in increasing commercial activity in their districts; district development committees and interinstitutional committees involved in activities to promote and plan local development; and parents’ associations and classroom committees in educational centers, that assume roles in promotion, management and direction of education.

It is also important to underscore the role played, particularly in local and regional spheres, of a variety of public service associations and organizations, such as the Lions’ Club and Rotary, charity and educational work done by churches and the non-governmental organizations that support vulnerable groups in the population (orphans, indigent elderly, handicapped). These entities have a long history of activities to benefit the community and they fill voids by providing services (support to hospitals, medical posts, educational centers, firemen) that are beyond the possibilities of the central and local governments. And schools and professional associations play a very important role – particularly in the country’s interior – in promoting debates, providing technical assistance to local governments and companies and in the activities of professional extension.

The business guilds and associations, many of them created several decades ago, have consolidated gradually and they play an important role in the life of the nation. For example, the Annual Executives Conference (CADE) organized by the Peruvian Institute of Business Administration (IPAE) has for several decades been the main meeting place for businessmen, politicians, public officials and academics, and it has frequently oriented the debate on development options for the country. Beginning in the 1980s, particularly with the creation of the National Confederation of Private Business Institutions (Confiep), the business guilds have turned into valuable interlocutors with the government and into one of civil society’s leading actors. Even though they represent the private sector viewpoint, frequently economic interests of business coincide with those of other population groups, particularly in the country’s interior. This can be seen during the last few years by observing the major role chambers of commerce play in articulating demands and devel-
opment plans in the Southern macrorregion, on the North Coast and in the eastern part of the country (Chapter 6, Box 6.7). The chambers of commerce have organized public debates on economic and political topics, participated in a series of regional initiatives and given their support to other local associations.

However, beyond general agreements over the suitability of a market economy and economic stability, the diversity of business activities and interests creates disagreements and conflicts inside the associations, particularly with regard to economic policies. This makes it very difficult to present unified positions in conversations with governmental authorities and to consolidate the influence business groups have on national life. On the other hand, the perception that the guilds are dominated by big company interests produces internal divisions. In some cases this has led to the distancing of medium and small business people from established associations and the creation of new business associations.

Trade unions have become ever more marginal and their importance among workers has diminished considerably during the last few years, partly due to the effects of successive economic crises and the impact on companies of globalization; also because the proportion of formal, salaried workers in the economically active population has diminished. Moreover, many unions lost prestige and strength owing to politicized and intransigent attitudes in their relationships with companies and the state. To become representative institutions again with a wide range of workers and instruments to improve labor conditions, and to be valid interlocutors with companies and the state, unions should renew their affiliation criteria to incorporate workers who do not have a salaried position, improve their negotiating and dialogue abilities and adopt a positive attitude toward the processes of business transformation and reconversion. This would lead to a new kind of relationship with businessmen and governmental authorities that would also make it possible to defend worker interests and contribute to the transformation and competitiveness of Peru's productive system.

Human rights organizations have played a singularly important role from the start of the 1980s. Terrorist violence and repression by the armed forces and national police made the active presence of these organizations essential to alert the citizenry to the abuses by one or the other party in the terrible conflict the country suffered for nearly 15 years. A large number of organizations to defend human rights, dedicated to information and education, to the defense of unjustly accused citizens, to supporting the families of the disappeared, to the defense of democratic insti-
tutions and to protesting human rights violations and changes to the constitutional order, among other activities, have coordinated their activities effectively. Through the written press and radio in particular, they disseminated information about the human rights situation that otherwise would have remained hidden. As human rights violations diminished in intensity during the 1990s and the government's intention to prolong its administration beyond the constitutional limit became evident, these organizations actively proposed the defense of democratic institutions and the importance of democratic governance for developing the country.

A group of non-governmental organizations (NGOs) that advocate specific causes -- particularly on subjects such as protecting the environment, the rights of indigenous peoples, consumer rights and access to family planning -- have been fulfilling a major role in articulating policy proposals and have influenced public opinion significantly. In some cases these organizations combine the tasks of social work, of research and study, and training and of training and dissemination.

For example, progress in legislative matters and standards for environmental protection are due in part to the pressures exercised by non-governmental organizations, such as the Peruvian Society for Environmental Rights, SPDA. Similarly, several NGOs have called attention to the situation of indigenous peoples, who have seen their traditional knowledge appropriated by commercial interests, and the abuses committed by some companies in exploiting nonrenewable natural resources. Other institutions have put to debate the impact that mining and industrial activity have on the environment; they have pointed out the abuses committed by making children work in dangerous activities (such as informal gold mining) and have organized campaigns to defend consumer interests (for example, to reduce the cost of public services). Lastly, the civil association Transparencia has fulfilled an important role in recent electoral processes, acting as an observer, performing a quick count, training pollwatchers, providing information to voters and organizing civic education programs.

Relationships between civil society and the State

These examples testify to the wide range of organizations that make up a plural, vigorous and influential civil society in Peru at the outset of the 21st century. However, the possibility that civil society organizations continue to assume an active role in the nation's life does not depend exclusively on
The relationships between the State and civil society organizations determine, in great measure, the field of action for the latter and the kind of relationship they have with government agencies. The State has the principal responsibility for establishing the bases for a friendly, productive relationship with the organizations of civil society, and for creating a climate of confidence, mutual respect and collaboration appropriate to mobilizing the energy and organization capacity of voluntary associations. In particular, public resources should not be used to establish relationships of political patronage with grassroots organizations that attend to the needs of the poorest groups of the population, nor offer perks to associations whose proposals coincide with those of the government while punishing those who have opposite points of view. On the contrary, governmental agencies should facilitate and support the work of civil organizations by providing information and recognizing their contributions to national development, among other initiatives (Box 7.5).

Another singularly important task the State should carry out to stimulate and facilitate the work of civil society's organizations refers to the legal frameworks that govern their behavior. It is essential to align legal dispositions that govern how these institutions are created and function, and what relationships they should have with government organizations, including the National Superintendency for Tax Administration (SUNAT) and the Ministry of the Presidency’s register of organizations that receive international aid.

The juridical forms by which the state recognizes civil organizations do not correspond to their very diverse functions, objectives and operating features. For example, the legal definition of "non-profit civil association" includes equals sport clubs, philanthropic foundations, service provider organizations, academic centers and popular associations without establishing distinctions between their functions and operating modalities. At one time, even the stock exchange was a non-profit civil association (Box 7.6).

At the same time, the existing administrative requirements for receiving international aid donations overload unnecessarily the administrative work of many of society's civil organizations, while there are practically no incentives by the government to stimulate the philanthropy of private companies and high income individuals. This situation considerably limits the possible financing sources for civil organizations and should be corrected as quickly as possible. Moreover, the state should promote and stimulate international aid to civil society organizations, many of which depend on international assistance for their survival. The temptation to control and restrict access by civil society organizations to external funding should be avoided — even though their activities and proposals may make the government uncomfortable at a given moment.

**Youth and student organizations**

Throughout the last century university young people and student leaders have played a very important role in the nation's life. The majority of political leaders who assumed national responsibilities took their first steps in learning centers and in university political struggles. Until the beginning of the 1980s it was common for young people, especially those with social concerns and aptitudes for exercising leadership, to participate actively in university life representing students before university organisms, to contribute to co-government in universities, to intervene in debates about various aspects of national development and participate in political activities. In many cases, this was considered an important complement to their formation as citizens.

This way of viewing student life and the participatory possibilities that flow from it was significantly reduced from the beginning of the 1980s until the mid-1990s, mainly owing to subsersive violence, terrorism and repression in many learning centers. Many student leaders assumed radical and protest positions, and in some cases directly supported subsersive groups. This gave rise to intervention by the armed forces in university halls and persecution of student leaders. As a result, students who were motivated and interested in participating in university and national life, but who were not willing to assume radical positions, saw their margin for action reduced to its minimal expression. University political life was totally disarticulated for a decade and-a-half, while political parties experienced a profound crisis. The result is a "lost generation" and a lack of young leaders with a vocation for public service and capacity for action in the nation's political life.
This began to change slowly in the mid-1990s and the concerns of university students found a clear expression in the protest marches of June 1997. The renewed activity of student organizations then beginning made it evident that Peru's young people were looking for ways to express their dissatisfaction with the political situation and their own prospects for the future. Until then, a large part of that search was lethargic and scarcely visible in the midst of a political system in crisis and a variety of initiatives by civil society organizations. Since then, there has been significant progress in the organizational capacity and attitudes in a great variety of student groups. New youth groups have begun to appear, student centers and federations have recovered their vitality, and it is possible to observe the presence of new university leaders. All this has created a valuable opportunity to renew the style and content of political leadership during the next two decades.

At the start of the 21st century, via its opinions and attitudes as well its interest in participating in national life, youth has expressed the need to embark on pluralistic, constructive dialogues that will lead to consensus, to recovering belief in the possibilities of collective action and restoring the legitimacy of democratic institutions. The vocation of public service which was characteristic of the generation of leaders of the 1950s and 1960s was eclipsed during the 1970s by excessive politization of university life, and it practically disappeared during the 1980s due to violence, repression and predominantly individualistic attitudes among young people. That vocation has now re-emerged.

**BOX 7.5**

The experience of Agenda: PERU in supporting youth organizations

Beginning in 1996, the team of Agenda: PERU carried out a series of activities linked to participation by young people in the nation's life. In the first study more than 100 investigators, opinion leaders, teachers and university students from 30 universities in 12 cities throughout the country were interviewed. Two regional workshops were organized in the country's North and South, and one national workshop in Lima. These activities gave birth to two publications, many presentations and dissemination of the results through the mass media.

In a second phase, between 1998 and 2000, Agenda: PERU carried out around 60 activities related to consulting, discussing and disseminating (workshops, colloquia, seminars, conferences, polls, debates, information fairs, interviews in the media (print, radio and television), covering 15 cities throughout the country and reaching more than 4,000 people directly. A book was published and support was provided to editions of university magazines. Currently, there is a web page devoted to topics of university youth and participation that has received more than 30,000 visits.

These activities demonstrated that in the mid-1990s many young people, especially university students, were not sure how to participate in public affairs. Like much of Peruvian society, they were confused and uncertain owing mainly to the lack of confidence in the existing political system for resolving the country's problems. Added to this was the generational leadership gap, which was the product of severe restrictions on action by student groups during the 1980s and part of the 1990s.

This changed following spontaneous marches in June 1997, when many young people began to seek their own ways to organize themselves as active citizens. The activities sponsored by Agenda: PERU and many other institutions turned into meeting places for young leaders in different areas of the country and into spaces for learning and discussion. That, in turn, helped to overcome mistrust and to nurture a change in attitude toward participating in public life. The repercussion of young people's actively participating in marches and protests to democratize the country has turned them into active participants in political organizations and movements; but, at the same time, it has demanded more capacity for organization, generating proposals and taking initiative.

On the other hand, youth is not a homogeneous, static group in the population. Aside from representing Peruvian society's diversity, young people make up a segment of society that is constantly renewed. Each cohort faces different challenges and must articulate its own responses to an environment that changes continually. Therefore, it is essential to create institutions that allow experiences to be transmitted from one generation to another. In the activities of Agenda: PERU the young people who participated in the first events helped prepare those who were incorporated into those that followed. It was possible to observe a maturing process in many of them, and in particular in the leaders who showed their willingness to assume responsibility for organizing subsequent events.

Source: Sociedad civil, juventud y participación política (compiled by Marlene Castillo), Lima, Agenda: PERU, 1999; Jorge Chavez Granadino, Los jóvenes a la obra, Juventud y participación política, Lima, Agenda: PERU, 1999; and, Juventud constituyente y ciudadanía: hacia un antiguo participativo de las políticas de juventud en el Perú (compiled by Jorge Chavez Granadino and Luis Ferman Clavero), Lima, Agenda: PERU/Asociacion Promoción de Juventudes, 2000.
However, the risk exists that the transforming potential of youth organizations and leaders will not materialize. This is partly due to: the absence of figures with whom young people identify since for them the great majority of current political leaders do not have prestige; a lack of information about the national situation and the possibilities for developing Peru in the next two decades; and the persistence of authoritarian attitudes and leadership attitudes, stimulated mainly by the way government power and authority were exercised during the 1990s. Moreover, youth organizations must overcome the lack of confidence and barriers to communication that make joint action difficult and do not allow for articulating networks and alliances to improve their effectiveness. Several experiences of working with youth groups show that it is possible to overcome these limitations, disseminate the importance of democratic practices and help youth develop their own ways of seeing the future and of organizing their participation in the nation’s political life (Box 7.7).

Nearly one hundred years ago a young generation felt that the existing political system in Peru did not respond to the demands of a new society and new age; its active participation in national life produced the principal leaders and ideas that articulated a good share of Peruvian politics during the 20th century. Youth and student organizations – that make up one of the very important components of Peru’s civil society now – face a similar challenge.

BOX 7.6

The State and information for civil society organizations: the Argentine case

The diversity and autonomy of civil society organizations frequently makes it difficult to coordinate actions and to avoid duplication of efforts. Creating consortia and other forms of working jointly, having information available on the social situation, social policies, financing sources and activities of social organizations can help to improve organizations’ efficiency and efficacy. This information task should be performed by a government agency, possibly within the Secretariat of State for Government Coordination or in the Ministry for Development and Social Investment (Figure 7.2). The purpose would be to provide direct support to civil organizations and channel their initiatives, proposals and demands to government echelons.

An experience of this kind was set in motion in Argentina beginning in 1995 with the creation of the National Center for Community Organizations (CENOC, in its Spanish initials) as a unit attached to the Secretariat for Social Development. This initiative was conceived as a way to change the relationships between the State and civil society organizations, which in many cases had turned the organizations effectively into executing bodies for state-financed programs. CENOC created spaces for joint tasks in which the civil organizations could dialogue with and interchange points of view with government representatives. This helped generate proposals to improve management and the impact of social policies as well as make social spending more transparent.

CENOC’s success was due in part to the fact that people with great experience and a recognized track record in non-governmental organizations designed and operated the center. This gave credibility to the proposal to create CENOC and dissipated fears that the State could co-opt, excessively influence or politicize the way these organizations acted. Toward the middle of 1999, approximately 6,100 “community organizations” were registered in CENOC, and almost half of them participated frequently in regional meetings to coordinate the design and execution of projects. A large number of the registered organizations participated in competitions to prepare social projects at the national level, in which an “Annual Prize for Social Innovation” was awarded.

Given that CENOC does not give subsidies or finance projects, the major incentive for listing in its registry is the chance to obtain a large quantity of information about the activities of civil organizations, domestic and international sources of financing, social policies of the federal and provincial governments. Moreover, CENOC provides advice on preparing projects, organizes training programs and puts the organization in touch with NGOs that work on similar subjects, thereby stimulating the interchange of experiences and dissemination of the organizations’ successful projects, advice for preparing projects, training in human resources, among others.

In Peru there are organizations such as the National Centers Association and the National Coordinator for Human Rights, which have been performing functions of this kind. There is a noteworthy absence of a state body to fulfill functions similar to those of CENOC and to establish cooperative relationships that respect the autonomy of civil society organizations.

Legal situation of non-profit civil associations

Despite the great diversity of civil organizations in Peru, existing legislation takes into account a limited number of legal figures to establish non-profit entities and to recognize them as a corporate entity [persona jurídica]. The private, non-profit organizations currently recognized are:

The association. This is the legal set up most frequently used by non-profit organizations that are separate corporate entities. The association link revolves around a common end or objective that is not necessarily of social interest or public usefulness; it can be only the interest of the association members. The capital of an association cannot be distributed among its members and, when the association is dissolved, the capital must be transferred to another association with similar ends.

The foundation. This is created by encumbering the assets of one or more founders. Its purpose is usually religious, for social assistance, culture or other social interests. Within the foundation, there is no legal associative link, and it is composed of administrators who are not necessarily members of the foundation. This organizational form has not been much used in Peru since there are no tax incentives or of any other kind to create a foundation; moreover, the Civil Code does not provide for decision-making flexibility. The Foundation Oversight Council has as its mission ensuring that the assets of the foundation are used according to the purposes set out by the founders, which further restricts the functioning of foundations.

The committee. This is an organization of individuals or corporate persons, or both, devoted to collecting financial contributions or contributions-in-kind from the public for an altruistic purpose. This legal figure is used to carry out public collections, homage, charity work, scientific and cultural events and other similar initiatives that are temporary, by their very nature. There are very few organizations of this kind registered in the Public Registries.

These legal figures and their regulations are clearly insufficient to cover the variety of demands and features of civil organizations. It is necessary to recognize legally a greater variety of associative means and to establish, via a consultative process, criteria to design legal standards to cover ways to associate. For example, it is possible to define criteria based on the objectives of the institution, the kind of services provided, the type of beneficiaries, financing sources, relationships with the State (central or local government), the number of members in the association, among many others. The idea is to try to establish a series of categories and legal figures that correspond to the diversity of objectives and kinds of action that Peru’s pluralistic civil society has the beginning of the 21st century.

Civil society, power and state: reforming political parties and movements

As indicated in previous sections, political parties are essential for the country’s democratic life. The electoral systems and standards that govern elections define the framework in which political parties and movements operate. They are the mechanisms through which organized citizens freely express their preferences about who should exercise leadership in the different institutions of state. Thus, parties and movements link the citizenry and organizations of civil society to the exercise of political power.

Even though Peru’s civil society demonstrates encouraging progress toward a more active, efficient participation in national life, many of its democratic expressions still remain in the sphere of grassroots relationships and groups interested in specific subjects and problems. The crisis of the political system has made citizens doubt the possibility of applying to their relationship with the state the same criteria and demands for accountability, representativity and control of elected authorities that they apply daily in the organizations to which they belong and that operate in more restricted spheres. However, it is necessary that civil society cease being mainly an agglomeration of organizations built on narrow, immediate interests, and that it move toward ways of democratic political association that articulate diverse interests and projects in the life of the nation.

As indicated in the preceding section on reforming the electoral system, the regional political parties and movements should be the main channel through which Peru’s citizenry expresses and processes its social demands and, therefore, should be the principal nexus between civil society and political power. However, for a variety of reasons, political parties in Peru have lost their capacity to fulfill these functions and have been unable to exercise an appropriate, efficient intermediation between citizens and the state.

The loss of party prestige during the 1980s and 1990s made it almost inevitable that they would
be replaced by independent groups; but the latter have not led to greater political stability and economic and social improvements. Many of these groups have lacked doctrinaire proposals, have improvised government programs and have not gathered a critical mass of militants or created a stable organization. The disadvantages of not having strong parties and movements have become evident during the political crisis of recent years. Building a political party system is a task still pending if good government and the consolidation of democracy are to be achieved. To accomplish this political re-engineering, one should keep in mind the experiences of other countries, learn from past errors and build a party system that is capable of articulating the needs and aspirations of the citizenry, turning them into viable political projects over the medium and long term.

The viability of party organizations and regional movements will depend mainly on how convincing their vision of the future is for the country or the region, the organizational capacity and credibility, and the quality of their members and leaders. The diverse levels of the state, particularly Congress and electoral authorities, have the responsibility to establish legal frameworks to promote development and consolidation of a party system, mainly through laws and standards that govern the electoral processes.

However, once a reasonable legal and institutional framework is established for political organizations to function, those organizations have the enormous responsibility of becoming reliable, representative and efficient intermediaries between civil society and the levels of political power. This requires a new attitude on the part of their leaders and organizational innovations by the parties and movements. In particular, it is necessary to renew the traditional, vertical concept of partisan structure — composed of a leader, leadership teams, militants, sympathizers and a “mass” of voters that expresses its adhesion through mobilizations at election time — to progress toward modern ways of organizing by networks, mechanisms that are associated with advances in information technology and have proven to be much more efficacious in every sphere of human activity.

This type of organization would stimulate greater participation by citizens in political parties and movements; it would facilitate communication and democratic practices inside the organization; and it would help the links between parties and state organizations to become more open and transparent. Box 7.8 offers some guidelines for what could be a political party or movement organized in accord with these principles.

**Reform of the security institutions**

The function of the institutions charged with maintaining security is to create the fundamental conditions for human beings to freely exercise their faculties and to achieve their objectives as regards individual and collective development. The reform of the security institutions is the fourth and final group of strands that make up the weft of the Peruvian social fabric that is to be rewoven over the next twenty years. It comprises those entities charged with national security that have the mission of defending Peru’s territorial integrity against external and internal threats, thus allowing Peru to fully exercise its political and economic autonomy; the organizations charged with citizen security, which maintain public order; and combat crime and delinquency (especially drugs trafficking); the protection of the population from disaster, including natural and man-made disaster; and personal security, which focuses on respect for human rights and the preservation of the physical integrity of the individual.

The main idea behind this group of reforms of the security institutions is to reduce to a reasonable and tolerable level the exposure of Peruvians to danger, to strengthen their capacity of response and resistance to adverse situations, and to reduce the vulnerability of the country, the community and the individual to any threat that could limit the capacity for free decision-making and the carrying out of national, community and personal projects.

**The security institutions**

A well-developed notion of national security is essential to guarantee democratic governance and advance towards a vision of the future and the wellbeing that we desire. Although its roots are in defense against threats and violence — whether external or internal — the concept of national security has gradually acquired several new angles: these include, for example, economic, food, energy, financial and environmental security, all of which are a consequence of the new types of vulnerability associated with the emergence of an increasingly turbulent and uncertain international context (Chapter 4).

Guaranteeing security at all levels is a task for the whole society, not just the military, the police, the neighborhood watch and private security companies. The design and implementation of effective security policies requires the cooperation of a broad range of civil society, private and state organizations. The battle against the Shining Path during the 1980s
and part of the 1990s highlighted the importance of strategic alliances between these three principal actors on the national stage.

_Civilians, military and national defense_

Responsibility for the design of a national defense policy is shared by the executive branch, Congress and the armed forces, although the Constitution charges civilian authority with exercising control over the military apparatus. Nevertheless, this is a delicate task and one that is hard to carry out, given that relations between civilian governments and military institutions have been marked by disagreement and conflict throughout the republican period. Peru has not yet managed to establish a pattern of civilian-military relations capable of fully guaranteeing the effective predominance of democratic governance in a continuous manner and with a long-term perspective.

Over the years history has shown that governments which enjoy broad-based democratic legitimacy have a more fluid and less conflictive relationship with the armed forces. When legitimacy is lacking, the temptation arises to use the military as a source of political power: it is then that the need to seal alliances with high-ranking military emerges. The events of the past two decades – marked by the return to democracy after twelve years of military rule, by the fight against terrorism, by the self-coup of 1992 and the excessive politicization of the armed forces – are a clear illustration of these difficulties and temptations.

A large part of the problem is that civilian-military relations are, without great exaggeration, like a conversation between two deaf people. A first step towards overcoming the situation lies in setting up fora for the interchange of ideas and viewpoints, and creating a common language which both civilians and military can use to refer to Peru’s history, its present and its future perspectives. Members of the armed forces enter as cadets at an age when other young people are receiving a university education. This means the vision of Peruvian history they acquire is conditioned by an unusual perspective which focuses on the role of the military institutions over the past two centuries. On the other hand, young people who enter other centers of learning or who do not go on to higher education have a biased and incomplete vision of the

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**BOX 7.8**

The evolution of the national security doctrine

It was General Jose del Carmen Marin – at the start of the 1990s in the Center of Advanced Military Studies, CAEM – who first developed a modern notion of a national security doctrine. He argued that the state has two principal functions: to seek the welfare of the entire population and to guarantee national security, although security, he said, should be at the service of social welfare. This doctrine sought an integration between socio-economic development and the capacity for effective military action.

The doctrine of national security gradually evolved, linking national territorial integrity with internal security, understood in an ever-wider sense. From the 1960s onwards, this doctrine became associated with a long-term development vision, which coalesced in the shape of a “National Project”. Experience of combating guerrillas strengthened the emphasis on socio-economic development, considered a precondition to confront the root causes of insurgency.

During the 1970s, the security doctrine incorporated the idea that international confrontations were not limited to those between East and West, but also occurred between North and South: the latter was considered a consequence of structural imbalances between rich and poor countries. This idea gave rise to a foreign policy that was extremely active in promoting changes in the international order. Gradually, Peru started to put together a national security doctrine in which human development and social justice were associated with a series of structural transformations in all areas of national life – such as reducing inequalities, citizen participation and changes in the patterns of wealth accumulation. Thus, security became an issue not just for the state, the nation or the government, but also involved the private sector, civil society organizations and the population at large. In this view, prosperity, wellbeing and a decent standard of living combine to give individuals something worth defending. Therefore, there can be no security unless there is social and economic progress, while development based on equality is the best way to combat terrorism and other threats, both internal and external.

The national security doctrine should continue evolving, especially bearing in mind the consequences of the fall of the Berlin Wall and the end of the Cold War. The issues of democratic governance and the consolidation of democratic institutions need to be added to the capacity for defending the national territory and promoting socio-economic development. At the start of the 21st century, the three pillars upholding national security should be: capacity for territorial defense, prosperity and wellbeing for all Peruvians, and the untrammeled rule of democracy.

Source: Edgardo Maccario Javia, _Reconceptualization de la doctrina de seguridad nacional_, unpublished working paper; Francisco Sagasti, _El futuro de las fuerzas armadas y la sociedad civil_, paper given at the meeting of the 32nd CAEM graduating class, held in the National Defense Secretariat, November 12, 1994.
role of the armed forces: this vacillates between hero worship and a respect for the efficiency they associate with the exercise of military authority, on the one hand, and a rejection of the authoritarianism and privileges associated with a career in the armed forces on the other.

For this reason, young military personnel should be encouraged to have access to civilian universities and academic centers. At the same time, Peru needs civilians who are specialized in matters related to the armed forces and to national defense. The Center for Advanced Military Studies, CAEM, has been offering an annual course on National Defense for many years past, but relatively few civilians take part: that number should be increased. In this way civilians who have become familiar with the philosophy and management of military institutions will be able to play an increasingly important role in matters relating to national defense. And they will be able to participate actively – and in possession of all relevant information – in the different state entities which are linked to the military and to national defense. At the same time, we must develop a new concept of the "National Defense Doctrine" that reflects the demands of today's world, in which the notions of democratic governance need to be incorporated (Box 7.9).

Just as the National Defense Council is a forum for interaction and for shared tasking by civilians and military (Figure 7.2), there are other arenas where – conversely – the jurisdictions of each need to be clearly distinguished. The absence of definitions and of clear and restrictive policy guidelines in these areas – which include justice, economic activities, emergency zones, intervention in electoral processes and the role of the intelligence services – has

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BOX 7.9

The party network: toward a new kind of political organization

The concept of “political network” sets out a new way to organize the citizenry at the national, regional and local level to participate actively in political life. Its principal objectives are to process citizen demands transparently and efficiently, contribute to the process of social learning and to articulate governance proposals for submission to citizens for their consideration – all this aimed at achieving electoral successes that will allow members to exercise power and authority effectively, and to guarantee democratic governance.

The party network makes use of advances in information technology and organizational techniques to give power to the content of political action.

Organization and structure

The party network is made up of a central coordinating nucleus, a large number of territorial and functional units at different levels, individual members affiliated with the party network, a unit for tracking and evaluation, and a unit for resolving controversy. The central coordinating nucleus is in charge of defining doctrine, programmatic guidelines, strategy for political action, criteria for membership and codes of ethics and behavior. It also coordinates the organization’s activities at the national level and maintains internal cohesion in the party network. It is made up of representatives designated by territorial and functional units and by representatives of individual members.

The territorial and functional units are the principal components of the party network, and they consist of organized groups of people in a particular locale (district, province, department, region), or grouped according to specific interests (environment, human rights, combating poverty), profession or occupation, among other criteria. The central coordinating nucleus establishes the requirements so that a group may join the party network as a unit. Each one of these units operates with a high degree of autonomy in its specific sphere of action, but respects the doctrinal framework and standards of conduct established for the organization as a whole. The individual members are people that affiliate with the party network and join in its activities, but without forming part of a territorial or functional unit. The objective of being able to join in several ways is to stimulate citizens to participate personally or by adhering to a territorial or functional unit.

The unit for tracking and evaluation has responsibility for ensuring the political and moral integrity of the party network and for respecting the codes of ethics and conduct that govern members. The unit for resolving controversy is intended to solve the conflicts that arise inside the party network, above all considering that the decentralized, flexible nature of the organization may give rise to both overlaps and divergences at the moment of political action. This unit would incorporate eminent people of renowned prestige and moral fiber in addition to members of the party network.

Function and operation

The components that make up the organizational structure of the party network interact with flexibility; they do not
been a source of constant friction which should be avoided in future.

**Military justice**

Military justice should only operate for cases of crimes committed by active serving military in the course of their duties. It should not apply to cases of common crimes committed by armed forces personnel, nor to the actions of retired military who have returned to civilian life. Otherwise, suspicions and erroneous interpretations could arise over a continuing "esprit de corps"; this could lead to the unwarranted protection of members of the armed forces which, in turn, could prove damaging to the prestige of military institutions. In addition, even though the lines between military and civilian justice became blurred during emergency situations and the battle against subversion, there is no justification for that situation to continue once the internal conflict is over. The jurisdiction of military tribunals over civilians should therefore be terminated.

**The economic activities of the armed forces**

This is another issue where clear lines need to be drawn, in order to ensure that military institutions do not intervene in, nor directly carry out economic activities - whether through companies linked to the armed forces or via the direct provision of services which compete with those offered by the private sector. For example, there must be restrictions on highway construction and maintenance by military engineers and army personnel: such activity should only be permitted in frontier zones or in very remote locations.

have many hierarchical levels, and they generate mutual obligations and shared responsibilities that ensure their internal cohesion and continuity. The territorial and functional units and individual members supply dedication, commitment, time, organizational and mobilization capacity. The central coordinating nucleus, in addition to defining the party network's profile of doctrinal and political guidelines, contributes technical and administrative assistance, information about the country's situation, activities of other units, political visibility and national projection for party members, as well as support services such as training and skill-building. All the units and people making up the party network contribute financial resources according to their own possibilities.

The central nucleus establishes standards for the number of citizens needed to constitute the territorial and functional units and the requirements for levels of activities (meetings, pronouncements, training, publications, public events) that show the interest of members in partisan life. The party network makes use of mechanisms to guarantee a high degree of transparency, effective accountability and a high degree of individual participation, with intensive use of new information technology to maintain communication within the party and to make decisions rapidly and transparently.

Directorship positions in the party network and the candidates for elections are defined via internal democratic procedures, whether by means of direct primary elections or other means to guarantee that those who represent the party network are truly representative and suitable. Starting with the principle that voluntary affiliation with the party implies a willingness to assume responsibilities, use is also made of random drawing of names to select some of the members to perform directorship functions in the territorial units and in the central coordinating nucleus.

One possibility that should be explored consists of adopting the procedures of a "circular organization" to share information, guarantee transparency and evaluate performance. These procedures encourage participation and help to achieve greater efficiency. At each level of the circular organization, those who answer to a supervisor are also his/her superior when they meet collectively in a committee to evaluate the supervisor's performance. These committees operate at all levels and echelons of the organization: the supervisor, his subordinates and his hierarchical superior. This mechanism ensures the fluid flow of information, continual evaluation of the organization's performance and guarantees transparent management. However, this should not change them into a group of procedures and an "assembly" culture, which dilutes responsibility and restricts the capacity for action of those who make decisions. The principles of a circular organization would be applied mainly in the territorial and functional units of the party network.

To a certain degree and with very important, significant variations, the organizational scheme that characterizes a party network would be similar to that used to constitute a business franchise. In this kind of organization a group of reciprocal obligations is established between the one who awards the franchise (technical assistance, research and development, training, market presence) and those who receive it (quality control, adherence to technical standards, investment levels of activity). Many non-governmental organizations that associate in networks at the regional or global level - particularly in the environmental field, human rights protection and fighting corruption - operate this way in practice, even though they do not use the word "franchise," which is associated mainly with commercial businesses.
special circumstances, for example, emergency repairs in the wake of a natural disaster. In the same manner, there is no sense in having the Air Force directly competing with private companies for the transport of civilian passengers: Air Force participation should be limited strictly to those areas where there is no private company operating. In both cases, there is a problem of unfair competition on the part of the armed forces, since they do not pay taxes and their basic operational costs are covered by the state. Moreover, such activities create opportunities for corruption: these should be avoided so as not to cause damage to military institutions.

Control of emergency zones

For almost two decades, a number of areas in Peru have been under emergency rule, with control of public institutions ultimately in the hands of a so-called Political-Military Commander – a serving member of the armed forces. This situation gives rise to the interference by the military in the management of a series of public bodies and distorts the exercise of political power by democratically elected local authorities. In some cases, these Political-Military Commanders have behaved in an arbitrary manner, imposing their own views and wishes on the regional authorities: there have also been instances of corruption. Now that terrorism has been defeated and the consequences of the internal war unleashed by subversives overcome, it is essential that Peruvian citizens and their representatives be given back their capacity to manage public institutions and control political bodies – across the nation and with no interference on the part of the military.

Intervention in electoral processes

As previously discussed in the section on reform of the electoral system, the requirement that a copy of the voting tally-sheet be delivered to the armed forces must be eliminated: it makes absolutely no sense in the present-day context. It is also necessary to rigorously enforce the prohibition on members of the armed forces to influence the running of elections and their results. Exemplary penalties should be established for members of the armed forces who violate this prohibition, and for their superior officers who do not ensure its compliance. In addition, in order to avoid their being treated as second-class citizens, the military should be allowed to vote: although under the strict condition that they should not, under any circumstance whatsoever, exercise that right inside a barracks or any other military installation. Members of the armed forces should vote at the same voting tables as those used by local civilians.

The role of the intelligence services

The National Intelligence Service and the intelligence services of the army, navy and air force, all increased their areas of influence during the 1990s. In the early days, this was a consequence of the counter-subversive role they played. But, gradually, they added in other fields of action, such as combating narcotics, kidnappings, delinquency and organized crime. During the 1990s, moreover, the intelligence services expanded into spying on and observing journalists and politicians, blackmailing and extorting public figures, persecuting the government’s political opponents, and other illegal activities which frequently resulted in human rights violations. The field of action of the intelligence services must be strictly limited to aspects of national security. Following a far-reaching reform of the intelligence services, a specialist commission should be set up to include representatives from Congress, the executive branch, the judiciary, the armed forces and the Defensoria, or Ombudsman’s office. This commission would be charged with supervising the activities of the intelligence services and ensuring they carry out only those tasks that they have been duly assigned.

Citizen security, the National Police and civil society

The National Police face a series of problems that limit their capacity for action and impede improving the level of security for citizens. A joint effort is needed by the police and civil society to solve these problems as quickly as possible. (Box 7.10). A basic lesson from the last two decades is that the rural militias, neighborhood associations, municipal patrols [serenazgo] and other civil organizations provide a valuable and effective support to the job done by the National Police. This support should be consolidated and institutionalized in the coming years. A first step in this direction is to register these groups and organizations with the Interior Ministry and municipalities, for which it is necessary to establish minimum requirements (number of members, juridical structure, and representatives) and training programs for their leaders. This will make it possible to define clearly that they are collaborators of the State and not autonomous bodies that keep order and administer justice.
The major purpose of the National Police is to guarantee internal order. It has specialized units for combating terrorism, drugs trafficking, crimes against property and for the maintenance of public order and traffic regulation, among others. After two decades of reorganization and changes in the upper ranks, the National Police currently faces a series of problems that severely limit its capacity for action. Among them it is possible to identify:

- Inadequate equipment to fulfill its functions. For example, the number of patrol vehicles is insufficient; there are not enough computers to register data on crimes and delinquents; existing information centers are not interconnected; and there are no adequate systems for communication among policemen, the police stations and other units of the National Police. In addition, the budget and ability to maintain equipment are very limited.
- Slow and inadequate processes that limit collecting information and data on internal security, which makes it difficult for the population to have access to police services. Modern equipment to carry out these activities (computers, on-line connections, geographic positioning systems) is needed, as well as trained personnel and operating resources to provide good service to the community.
- The specialized units of the National Police have received preferential attention, in detriment of those units in charge of daily tasks. For example, the threat of terrorist attacks, drugs trafficking and the increase in gangs that assault banks and take hostages led to giving preference to the units in charge of these crimes in terms of the supply of material and resources assigned. This relegated district police stations to a secondary level and result in a relative abandonment of the dependencies that have a very close relationship with the population and are the basis for a system of citizen security.
- The organization and functioning appropriate to military institutions, characterized by a closed, hierarchical style, little disposed to dialogue, have been replicated in the police. This is due, in great measure, to the Army’s great influence over the police. This constrains the flexibility that a police institution should have to develop a wide range of links with the population, especially in the country’s poorest areas.
- Police work has been discredited and lacks the mass support of the population. Among other reasons, this is due to low wages that oblige police to work outside their hours on the payroll; they work as private security guards or in the municipal patrols [serenazgo], among other activities. This has a negative effect on their dedication and effectiveness during their police work shift. Moreover, low wages caused the best teams and policemen to leave the force, and precarious working conditions do not allow them to fulfill their functions properly. Even more serious is the fact that various former police – and even some active police – have been identified as participants in criminal acts and criminal gangs.
- There is no incentive system to encourage good police conduct and performance. Existing standards and procedures propitiate passive attitudes and encourage making the least possible effort. Good work is not adequately recognized or rewarded, whereas errors in carrying out the job are severely punished.


The problems created by the lack of clarity in this regard are evident in the case of some rural militias that, after the fight against subversion had ended, transformed themselves into the guardians of an order that they themselves decided and imposed. Moreover, lynchings take place in some peripheral areas in major cities, where the residents mete out justice on their initiative and punish as they see fit. This indicates that closer state supervision of the activities of these organizations is necessary, a task that corresponds to the National Police and the Judicial Branch. With such supervision it will be possible to identify a range of opportunities for cooperation between the State and civil society organizations. For example, it would be possible to delegate some responsibilities in matters such as traffic control and the fight against minor crimes to municipal patrols and neighborhood associations. Given their closeness to the population, these organizations are better suited to assume these responsibilities that require an on-going relationship with the citizenry.

On the other hand, it is essential to improve the coordination of police activities with those of the Public Ministry and international anti-crime organizations. Globalized delinquency and organized crime, plus the complexity of certain kinds of crimes (financial, information-based, environmental, terrorism, hostage-taking), make it necessary to have police specialized in operating intelligence and investigation into new types of crimes, and able to cooperate on an equal footing with their counterparts in other countries and with international organizations. For financial crimes and those that use modern infor-
The need for greater coordination between police action and that of other actors is especially noticeable in the case of the fight against drugs trafficking. Apart from the National Police, it is necessary for civil society organizations, private companies and international organizations to join forces. In anti-narcotics efforts, the armed forces should only support the work of the National Police and avoid direct intervention. In the areas where coca is grown, repressive action needs to be complemented with the participation of development agencies that support the substitution of coca with other products. In the case of money laundering from drugs trafficking, it is essential to ensure tight cooperation between financial institutions. To prevent and combat drug consumption, local governments and civil institutions – such as CEDRO and rehabilitation programs for drug addicts – play a singular role in complementing the initiatives of the central and local governments (Box 7.12).

In addition to a better link between the National Police and local governments and civil organizations, successful efforts to guarantee citizen security require a profound review of the way in which people who have committed crimes are treated and punished. Respect for the person’s dignity and human rights is fundamental for an efficient fight against crime. This means paying particular attention to the way police stations and penal establishments function. A culture has developed of mistreating and humiliating people who commit crimes, something that must be reversed, especially in jails. Only 30% of those in jail have received sentences, and this percentage is even lower in metropolitan Lima. This means that the overwhelming majority of people in the penitentiary system is accused and waiting for a hearing or a sentence. Moreover, penitentiary management is extremely inefficient from a cost-benefit viewpoint. By not rehabilitating and reeducating those who commit crimes, but on the contrary converting jails into training grounds for crime, one generation after another of delinquents is created, and citizen insecurity increases.

The central objective of jails and penal establishments is to reincorporate those who have committed misdemeanors and crimes. For this to happen, they need to be converted into and managed as centers for rehabilitation, training, teaching and personal regeneration. The judiciary also has a very important role in this task since the overcrowding in jails is due, in great measure, to bad administration of justice in Peru. In particular, the extremely lengthy periods between arrest and sentencing are very harmful and unjust.

The initiatives to prevent delinquency should complement police vigilance, the work of the judiciary and the activities of penal establishments. It is particularly necessary to work with young people at risk, above all in marginal urban areas (Box 7.12).

Civil Defense: a joint task

Peru's great geographical diversity exposes the country to an unusual variety of natural disasters - earthquakes, torrential rains, floods, landslides, droughts, forest fires, avalanches, among others. This should have led to developing an advanced and widely shared culture of prevention against disasters in our society. However, this has not happened. Improvisation - added, perhaps, to a fatalistic attitude - is evident in every field and level of national life, from the construction of homes in high risk locations, to the delayed reaction when a disaster occurs, and the precarious defenses against the periodic river floods along the coast. Moreover, it is essential to take measures against disasters caused by human negligence and imprudence and, in particular, those that involve water and air pollution and other threats against life and health.

Natural disasters destroy highway and telecommunications infrastructure, provoke loss of property, seriously affect production and can cause grave epidemics. All this affects particularly the poorest and most vulnerable sectors of the society. For this reason it is necessary to give much greater importance to civil defense, which should include a group of actions to protect life, assets and the environment - before, during and after the disasters. The National Civil Defense Institute (INDECI, in its Spanish initials) should coordinate and direct these initiatives, by involving leaders from the public and private sectors and civil organizations in areas exposed to disasters. However, the activities of INDECI have depended excessively on the armed forces, and its chief is an in-service general. Military participation is important, but civil defense should be, in effect, fundamentally civil action.

It is necessary to design and put into practice policies that include preparation for eventual natural disasters, measures to be taken when they occur, and everything related to the later rehabilitation of infrastructure and affected property (Box 7.13). This means a combination of legislative initiatives, assigning resources from the national budget, incentives for prevention measures adopted.
The major challenge for reducing natural disasters and their impact consists of developing a culture in which prevention predominates and one that uses risk management as a tool, instead of simply reacting to disasters and providing help to those harmed. Although natural, technological and environmental dangers cannot be completely avoided, there are approaches and practices to prevent them, as well as accumulated experience that makes it possible to reduce the seriousness of disasters that can cause heavy losses. Prevention is not just more humane than fixing the damage, it is also much more economical.

The number of natural disasters of major magnitude and the economic losses caused by them have increased in recent decades. According to the Secretariat of International Strategy for Disaster Reduction, during the 1970s, there were 16 natural disasters of great magnitude in the entire world, with economic losses close to $50 billion. In the 1990s, the number of these disasters totaled 53, and the economic losses were close to $500 billion. This makes it imperative to consider disasters as a major development problem, especially in highly vulnerable countries such as Peru.

Government authorities should design participatory strategies to reduce risks and to limit economic and social losses caused by disasters. For this, it is essential to raise the population's consciousness about the risk that natural, technological and environmental dangers represent, and also to emphasize the economic and social benefits of prevention (less spending to replace damaged infrastructure, less destruction of natural resources, more effective programs to save human lives).

Among the features that should receive special attention are the establishment of networks of information systems about potential dangers, the organization of early warning mechanisms for rapid response and the adoption of procedures to continually track indicators to anticipate the occurrence of disasters. Moreover, it is essential to do studies to evaluate the potential impact of the most significant risks, giving special attention to demographic features, population distribution and urban growth, and the complex interactions among the natural, technological and environmental factors. All this should lead to designing standards and regulations for the construction of homes, highway infrastructure, the location of industrial plants, among many other activities. Moreover, in Peru it is necessary to keep in mind the effects of the El Niño phenomenon that occurs periodically, and the impact of seismic movements that occur with certain regularity.

**BOX 7.11**

**International strategy to reduce disasters and their impact**

by companies, educational programs and training for the population, simulations in schools and other organizations, and also periodic campaigns to inform the citizenry. It is also essential to organize the community to deal with possible epidemics, many of which are the result of natural disasters and cause harm to the population and the country’s economic life.

**Personal security and human rights**

Personal security is tightly linked to the existence of and unrestricted respect for human rights, that sets forth a minimum group of conditions for the free exercise of human faculties and life with dignity. Approval of the Universal Declaration of Human Rights in the United Nations more than half a century ago formally consecrated a group of principles—freedom of expression and freedom to organize, respect for human life, the right to not be detained without just cause, among many others. States should guarantee fulfillment of these principles, which are fundamental for civilized coexistence, for all their citizens. Incorporated later were social and economic aspects related to fundamental human rights, and these initially centered on political rights and guarantees for personal security.

The State is fundamentally responsible for ensuring respect for human rights and for disseminating the values and attitudes associated with them. Only a population conscious of its fundamental human rights and knowledgeable about the institutional frameworks that allow them to be enforced is able to fully exercise its citizenship. Although the topic of human rights receives public attention when flagrant violations occur, the subject needs to be dealt with permanently and as a matter of state, with the objective of creating a culture of mutual respect, recognition of the other as an equal and of rejection for violence in all its forms.

The grave violations against human rights that occurred in Peru during the 1980s and part of the 1990s, that originated in terrorism and involved subversive groups and the armed forces and police,
BOX 7.12

Program to combat drugs

Peru is the major producer of coca leaves, and between 1990 and 1997, it was responsible for more than 50% of the world's coca production. In 1990, it was also the major producer of cocaine chlorohydrate (490 metric tons), a situation that continued during the following years. Beginning in 1994, production declined to 240 metric tons in 1998, due to greater control over cultivation and the shipment of basic paste and cocaine chlorohydrate. Another important factor was the drop in price for coca leaves, that discouraged coca growing and reduced the availability of the basic input for cocaine (See graph below).

![Production and average price of coca leaf](image)


The major fight against drugs trafficking was carried out in two areas that account for close to 75% of coca leaf production: the Huallaga valley and Apurimac. Thus, the National Anti-Drug Directorate (DINANDRO, in its Spanish initials) with logistical help from the United States Drug Enforcement Administration, in 1998 eradicated almost 8,000 hectares of mature coca – without taking into account the seeds eradicated, which impedes future production. This is approximately twice as much as the government initially planned to eradicate. Moreover, peasants abandoned close to 10,000 hectares, largely discouraged by the low prices. DINANDRO's work in detecting the shipments and destroying the laboratories made it possible to confiscate close to 5 metric tons in the first half of 1999 (more than double what was confiscated in 1998), destroy 15 laboratories for processing basic paste and cocaine chlorohydrate and 100 pits for macerating coca leaf. Simultaneously, a program to substitute coca growing with alternative crops such as coffee and cocoa was begun.

However, toward the end of 1998, the price for coca leaf began to rise. As a result, the average price that year tripled compared to the previous year's, reaching US$1.75 per kilogram. When the price incentive scheme reversed, the achievements obtained in crop substitution were endangered, since many peasants had abandoned coca growing voluntarily due to better prices for alternative products. To deal with this situation, Peru's government proposed a Program for Integral Development to the United States at the end of 1999. The program sought to eradicate coca-growing in five years, using the following measures:

- Limit the area of coca production to that needed for traditional use (between 5,000 and 10,000 hectares)
- Promote the development of alternative crops via programs for credit, training, technical assistance and investment in infrastructure.
- Improve the standard of living and eradicate poverty among coca-growing peasants.
- Raise the consciousness of the population about the problem of production, traffic and addiction, especially in coca-growing areas.

The design of programs to reduce coca growing should keep in mind that low productivity and uncertainty about price levels make alternative crops very risky and not very profitable. Moreover, the productivity of coca crops improved significantly during the 1990s, so much so that the drop in growing areas did not translate into a drop in coca production. On the other hand, to guarantee that alternative crop programs are sustainable it is necessary to include measures to promote reforestation, livestock and the processing of agricultural and forestry products. That way, putting programs into practice to reduce coca growing faces multiple problems. Their solution requires sophisticated strategies and plentiful financial resources, a good part of which should be provided by international assistance.

make it necessary for civil society and the State to join forces so this is never repeated. In some cases, the government tried to equate the defense of human rights with an apology for terrorism, accusing those who do not agree with combating human rights violations by terrorists with human rights violations perpetrated by the state. This should definitely be overcome in order to place respect for life, limb and personal dignity at the center of the relationship between citizens and state organizations. The educational system and mass media have a special responsibility in this task, that should be promoted and
sponsored by civil society organizations and governmental agencies.

During the past few years, the concern for human rights has ceased being linked to the fight against terrorism and subversion and moved toward establishing those rights in other fields, especially with regard to the interactions between the population and institutions linked to national and citizen security. The abuses and crimes committed by the National Intelligence Service during the decade of the 1990s – assassination, torture, telephone tapping, threats against journalists, defamation campaigns against opposition politicians, intervention in electoral processes, among others – has made it clear that the exercise of power without counterweights leads to human rights violations. Moreover, governmental interference in the administration of justice has given rise to a series of abuses that violate the right to due process and to impartial and equal justice for all Peruvians.

The treatment received by citizens at the hands of the National Police is also a cause for concern, particularly in the case of women who go to police stations. There is abundant evidence of physical, verbal and even sexual maltreatment, which indicates the presence of “a culture of abuse” in the relationship between members of the police and citizens. On the other hand, domestic abuse, particularly against women, is also a grave problem. More than half the complaints received in Cusco and Lima during the decade of the 1980s for threats against life, body and health had to do with aggression in couple relationships. Between 1994 and 1997, almost 95% of the complaints of mistreatment presented by women in metropolitan Lima involved physical violence, and in around one-third of these complaints the aggressors were drunk. The female police and program for the defense of women in the Ombudsman’s office have begun to take significant steps to correct this situation, but there is a long way to go before family violence is extirpated.

Personal insecurity creates a sensation of helplessness, impotence and frustration, that grows worse when impunity reigns for those who commit abuses and violate human rights. Together with social deprivation, poverty and unemployment, this sensation of personal insecurity creates conditions propitious for violence, above all in society’s most vulnerable groups. It is true that in the 1980s in Cusco, a quarter of the dominance complaints received in 1980 were related to the abuse of violence, and 70% of the complaints about domestic violence were in Lima. The figures are probably lower now because the figures have increased more recently, and there have been more complaints from women in Lima and Cusco. There are, however, other factors which have a significant influence on these figures. According to a study done by Cali’s Vigilance and Security Fund [Fondo de Vigilancia y Seguridad], in the mid-1990s, there were approximately 8,500 young people, grouped into 130 youth gangs, which were very diverse in the nature of their criminal activities. The program considered reincorporating these young people into the society as a priority. DESEPAZ set up a network of “youth houses” to provide spaces and healthy recreational activities; it organized inter-community olympics to encourage sports; it promoted income generation via special programs for employing young people; and it collaborated with schools to improve educational quality. At the same time, special measures for municipal control were implemented, such as the semi-dry law to reduce alcohol consumption, the prohibition against bearing arms, programs to prevent traffic accidents, and the fight against organized crime and against impunity.

The policy for citizen security should emphasize prevention and be aimed at reducing the transgressor and delinquent population. It should give preferential attention to the categories of crime that are most important in terms of frequency and seriousness, and try to achieve a lasting impact. Programs such as DESEPAZ, that try to eliminate the social, cultural, institutional and territorial roots of criminal conduct in young people have a multiplier effect and should receive priority attention.

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**BOX 7.13**

**Public security and prevention: the DESEPAZ program in Colombia**

The Program for Development, Security and Peace (DESEPAZ, in its Spanish initials) was established in Cali in 1992. Its objective was to reduce high crime levels, mainly through the elimination of significant reduction of the risk factors that are at the root of daily violence, especially among young people. These factors include poverty, inequality and exclusion; a culture of violent response to conflict; violence in the media; impunity and inefficiency in the Judiciary, the police; the use of arms, consumption of alcohol and drugs; and the presence of youth gangs.

DESEPAZ put emphasis on the research and systematic study of the causes and effects of violence. It pushed for institutional strengthening via the creation of municipal security councils; it helped the police by demanding at the same time better conduct in its interventions; and it supported the justice administration. In addition, it organized campaigns to educate citizens and encouraged participation via the creation of community governance councils. It gave priority at every turn to prevention and equality, by articulating DESEPAZ initiatives with social policies.

According to a study done by Cali’s Vigilance and Security Fund [Fondo de Vigilancia y Seguridad], in the mid-1990s...
vulnerable groups. Even though the causes of this insecurity are complex and demand a wide range of interventions to overcome them, it is essential to take steps in the field of education, to support civil society organizations that defend human rights and to reform state institutions that have affected personal security in a negative way.

The institutional reforms proposed in this chapter have as their fundamental objective creating the conditions to move toward a future vision and toward the notion of the common good (Chapter 1) in the new international context of the fractured global order (Chapter 2). All these reforms are oriented to achieving and consolidating democratic governance, which is a necessary condition to put into practice the policies and measures of the strategic direction on productive transformation and competitiveness (Chapter 3); equality, integration and social justice (Chapter 4); environmental management, science and technology (Chapter 5); and organization of the national territory and physical infrastructure (Chapter 6).

If one imagines institutional reforms as a group of threads in the warp interwoven with the weft of the strategic directions to remake Peru’s social fabric, the emphasis is on the impossibility of separating weft and warp, policies and reforms, strategic directions and democratic governance. The frustration of Peru’s development during the last half century, that makes us continue being a country of missed opportunities, is due in great measure to an excessively technocratic vision of the changes that need to be put into practice. Measures that are fundamentally technical and put into practice as islands of modernity – or bubbles of professional excellence isolated from the rest of society – are not enough. They usually rest on autocratic styles of governing.

The reform of the State, the private sector, civil society’s organizations and institutions for security, that will take at least two decades, should be the product of debate and consensus. In addition to consolidating democratic governance, the reform process should be, in itself, a democratic exercise that along the way demonstrates the will of Peruvians to approach their desired vision of the future and achieve the common good.
CHAPTER EIGHT

CULTURE, IDENTITY, AND VALUES
INTRODUCTION

Culture and values can be seen as the material that makes up the threads and the pattern comprising the framework of the Peruvian social fabric, which we must reconstruct over the next two decades; identity corresponds to the design and colors of that fabric. The reconstruction process requires, first, a profound change of mentalities to construct a national identity that enables us to recognize ourselves as a multi-faceted and heterogeneous country at peace with its cultural diversity and in which respect for differences is the foundation of a sense of identity that responds to the challenges of globalization. Second, the process requires an affirmation of democratic values that allows appreciation of the importance of dialogue, consensus, and citizen participation at all levels, in which practical values (saving, work, creativity, productivity,) are coupled with ethical and moral values (solidarity, truth, honesty, freedom, respect for human rights). Third, it requires adopting measures designed to consolidate a democratic culture that supports the implementation of a development strategy and, at the same time, guides a positive transformation of mentalities and identities in the context of a fractured global order.

The notion of the common good defines the possibility that all Peruvians should be able to conceive, design, choose, and freely realize our individual life plans (Chapter 1). Realizing this possibility is a widely held ambition that, in turn, implies the reaffirmation of a pluralistic and integrated national identity and the adoption of a set of values that are consonant with achieving that common good. Identity and values are the basis for showing our potential, for conceiving and constructing a community, and for jointly pursuing our individual life plans without hindering or interfering with the plans of others. However, it is not merely a question of constructing a new identity or a new system of values from scratch, but of setting about the task armed with a basic set of common values accepted by consensus as valid and which, expressed through the various cultural forms that are prevalent in our country and supported by a common vision of the history and future of Peru, correspond to the notion of the common good.

Changing mentalities and national identity

It is not possible for us to address a desired future vision without first altering both the image that we have of ourselves, and the customs and attitudes that shape and sustain that image (Box 8.1). In order for us to identify with—and, more importantly,

**BOX 8.1**

**Changing customs and values: a view from the time of Independence**

The profound political, economic, and social changes that accompanied Peru’s independence made it necessary to break with the social practices and mentalities associated with the past. An article that appeared in *La Abeja Republicana*, written under the pseudonym M.N., addressed the issue of the need to change mentalities with remarkable insight.

"In order to be a good citizen one must be virtuous; and while, out of bad habit, one might not practice all the virtues, one must at least observe some of them. Our actions must be guided by selflessness and love for our neighbor, and understand that in not following this true path, all our plans dictated by the desire to live in society are rendered impossible. We must also banish base flattery, the origin of so much misfortune; this cruel enemy has made such great progress among mankind as to enslave multitudes, and makes it impossible to destroy the dark veil of servitude and fear. And until it is banished forever, true citizens will never be regarded with the dignity that they deserve and, in consequence, their service will be judged unworthy of reward, since the judges, having become accustomed to receiving tributes from those skilled in this diabolical art, forget their primary duties, and thus you will observe how they are the first to obtain high positions and honors, smiling in disdain at the honorable ones who look in amazement as they are elevated; but they console themselves with the love of the true citizens as they fall from the good graces of the powerful."


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273
build – a better country, values and attitudes must be in keeping with a development strategy designed to bring prosperity and wellbeing to all. In order to move forward along the strategic directions (Chapters 3 to 6) and institutional reforms (Chapter 7) set out here, a change of mentalities is called for. At the same time, the progress that comes from launching a development strategy changes our outlook on the world, which, in turn, leads to a redefinition of identities and social practices.

Changes in values, attitudes, and mentalities take longer than those in technology and production, or even in institutions. Changing mentalities is a long-term commitment that requires us to set a time threshold of at least one or two decades if we are to see the image of our desired future materialize (Chapter 2, Box 2.8). That said, there have been exceptional moments in history in which the world of mentalities and identities has undergone rapid change as a result of circumstances over which there has been little control. This is occurring as we leave the 20th century and enter the 21st century due to the emergence of a fractured global order (Chapter 2). The strides made in information technologies, the transition to the post-modern age, and the rise of individualism are some of the main factors that impact on the ways of thinking and outlooks to which we have become accustomed. The challenge consists in answering the question of who and what Peruvians are in order, then, to accept that answer as a point of departure and, while retaining the positive features of our historical personality, embark on the process of transforming our cultures and values in order to come closer to what we want to be. Only then will we be able to contend with and contribute to the process of globalization and, at the same time, build and reinforce our own identity.

**A continually evolving identity**

National identity is not a finished product, but one permanently under construction. Throughout history each generation has had to deal as best it can with the challenges that the times and context imposes on it, while simultaneously attempting to maintain a continuity that is in tune with its conception of identity and the values that support it. The question of Peru’s national identity – at least during the Republican era – was very often raised as part of schemes that favored homogeneous solutions (criollo Peru during the early days of the Republic, indigenous Peru in the mid-20th century) or advocated the Western European model of nation states in the style of the mestizo-Catholic society of Víctor Andrés Belaúnde. However, at the start of the 21st century, awareness of new realities has banished this ideal of a homogeneous nation from Peruvians‘ imaginations and systems of values.

The turbulent transition toward a globalized world, in which we are seeing an asymmetric interaction of countless cultures with different values, outlooks, and mentalities and where many of these cultures become conscious of their identity when faced with the prospect of globalization, opens up a new range of possibilities for understanding Peru’s reality in all its heterogeneity and diversity. Although diversity as something positive is a recent concept, there is increasing public awareness that this component of social wealth, rather than a liability – to use an accounting analogy – is actually an asset that Peruvians should learn to take advantage of. It is necessary to construct an image of our nation based on its heterogeneity, on the harmonious coexistence of different cultures that intertwine and strengthen each other. A shared aspiration to live in a pluralistic and integrated society enables us to recognize in this diversity one of Peru’s main compara-

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**BOX 8.2**

**Diversity and creativity: the view of José María Argüedas**

Diversity of cultures and of peoples, of spaces and species and of symbols and visions, all elements of the rich heritage bequeathed to us by Peruvian history, has had a place in many Peruvian literary works. José María Argüedas had this to say about this diversity:

"The other principle [of my work] was always to consider Peru as an infinite font of creation. Should we perfect ways to understand this infinite country by learning about all there is to discover in other worlds? No, there is no country more diverse, or that has a greater variety of land and human being; every degree of heat and color, of love and hate, of schemes and subtleties, of symbols used and inspirational. It wasn’t blind chance, as the so-called common people would say, that Peru was the cradle of Pachacamac and Pachacutec, Huamán Poma, Cieza and the Inca Garcilaso, Tupac Amaru and Vallejo, Maridégui and Eguren, the feast of Quyllur Riti and of the Señor de los Milagros; the yungas of the coast and highlands; farming 4,000 meters up; talking ducks on highland lakes where all European insects would drown; hummingbirds that fly to the sun to sip its fire and spout down flames on the flowers of the world. In such a context, to imitate another is scandalous. They may be ahead of us and dominate us technologically, for who knows how long, but in the arts we are already able to make them learn from us and we can do so without moving an inch away from here."

*José María Argüedas' acceptance speech on being awarded the "Inca Garcilaso de la Vega" Prize, Lima, October 1968.*
Several authors have agreed on the significance of the deep division created by the European conquest of the Inca Empire. To quote Alberto Flores Galindo, "From the 16th century onward an asymmetric relationship was established between the Andes and Europe. It could be summed up as the meeting of two curves: a declining population and rising imports of sheep, occupying the spaces left behind by humans. This meeting was dominated by violence and imposition. But these exchanges were more complex: ships arrived bringing sugarcane, vines, oxen, plows, men from the Mediterranean and others from Africa, and, into the bargain, ideas and conceptions of the world, in which words and concepts that were making their way in became jumbled up with others that were condemned as heresy. On the Andean side, along with the break up of a mental universe, there arose an effort to comprehend that true cataclysm that was the conquest, to understand the victors, and, above all, to gain self-understanding. Identity and utopia are two dimensions of the same problem."

This event, which marked the founding of Peru, produced an aftermath of deep social divisions which have hampered attempts to forge an integrated nation that might be accepted as such by all its inhabitants. This image of Peru was supported by a fragmented, biased, and distorted reading of the processes that occurred in the country. According to Julio C. Tello, "the history of Peru after the fall of the Inca Empire is not the complete history of a nation, that is, the entire collection of people united by a sense of community, by a sense of nationality. It is something akin to the monographic history of a more or less cosmopolitan colony nestled in its territory. It is not the integral history of the country, that is, one which reflects the events, the social and religious order, the customs and beliefs, and the aspirations and ideals of all Peruvian through the ages, which are what forge a sense of nationality. Our own, true history has been hidden under the rubble left by the collapse of the Inca empire and by the prejudices of the ethnic or social superiority that emerged as a result of that event."

Accordingly, the traumatic experience of the conquest of the Inca Empire not only left a deep social division, but also laid the foundations for the future plight of large sectors of the population that has endured even under the Republic. At the start of the 21st century, their plight constitutes one of our largest unpaid historical debts.

The demographic explosion of the mid-20th century, the massive waves of urban migration, and the questioning of the paradigms that traditionally steered people's interpretation of national reality accentuated the myriad rifts and exposed the mechanisms that transform differences into institutionalized inequalities. But the most persistent of these rifts is ethnic and social in nature: the possibility of recognizing a collective "we" in Peru carries racial connotations through which different conflicts associated with a person's social background are processed: class, gender, culture, and regional origin. As yet, it has still not been possible for these excluded groups to have a say in the reformulation of an integrated Peruvian cultural identity. Moreover, it has not been possible to develop a strong and influential middle class capable of fomenting a modern and democratic sense of identity (Box 8.4).

Gender exclusion – associated with machista attitudes – also remains an obstacle for constructing a pluralistic and integrated national identity. In the same way as racism does, inequality between men and women – or gender inequality – harms self-esteem and encourages exclusion. There are more illiterate women than men; women are paid less than men for doing the same jobs; and women in positions of public authority are still the exception. Although this situation is changing, female participation in politics is mainly confined to the regional government level (Box 8.5).

In order to construct a pluralistic and integrated national identity it is crucial to assist excluded...
BOX 8.4

The middle class: values, identity and citizenship

One problem caused by the inequalities, poverty, and great ethnic heterogeneity that exist in Peruvian society is its small middle class. Few in number and hampered with a sense of social insecurity, their political conduct has revealed itself as elusive, diffuse, and fickle. In developed countries the middle class has very often been the social engine of citizenship and democratic values. The economic, political, and social position of a member of Peru’s middle class is not that of the average citizen. Furthermore, in our case, racist attitudes, discrimination, and exclusion, which are so marked in the private sphere, undermine the capacity of the middle class to drive modernization.

According to Javier Díaz-Albertini, “This absence of a broad culture that enables identification with certain values and standards that guide political and social activity, has turned our middle class into one that goes with the flow of circumstances. This does not mean that the middle class has not, broadly speaking, assimilated modern discourses on citizenship, equality, and efficiency, but, rather, that this discourse has not been suitably accompanied by behavior that is more marked by the dynamics of closer social relations.”

For her part, Norma Fuller has highlighted the inconsistencies of the middle class: “Although the members of the middle class subscribe to egalitarian values, the institutions that give them a conscience – family and networks of relatives and acquaintances – and the representations that enable them to see themselves as decent people, are based on hierarchical, contextual, and inward-looking principles.”

Source: Javier Díaz-Albertini, Nueva cultura de trabajo en los jóvenes de clases media alta, Universidad de Lima, 2000; Norma Fuller, Las clases medias en las ciencias sociales, in Gonzalo Portocarrero (Ed.), Las clases medias entre la pobreza y el poder, Universidad de Lima, Lima 1998.

BOX 8.5

Gender exclusion: machismo, social presence, and political absence

Machismo is firmly entrenched in Peruvian society. A profound change is required to alter traditional attitudes to the roles of men and women. Paradoxically, in many cases women themselves accentuate these disparities and help to reaffirm machismo, in particular by differentiating between sons and daughters when it comes to the question of access to and the importance of education.

However, among the poor majorities it is very often the woman who shoulders the burden of dealing with the problems of the family’s survival, mainly through her own hard work and involvement in community kitchens, mothers clubs, the “Glass of Milk” program, and other organizations. This reveals a clear contradiction: the family (private) reality revolves around the woman, but the (public) model of power and authority is a male domain; Peru would seem to have a basically matriarchal society, and yet, at the same time, it is deeply machista.

In a machista society women have little say in politics. It may be acceptable for women to represent women but not the community as a whole. It is unlikely that they would be accepted in a position of leadership that is regarded as a male preserve. As a result they are only able to exercise leadership in fragmented fora; in the vast majority of cases women only speak for women and do not represent the whole, which does not help to resolve – and, indeed, probably worsens – problems of gender inequality. The female stereotypes propounded by the mass media, in particular those disseminated and perpetuated by advertising and soap operas, certainly do not help to address these problems.

Although at the beginning of the 21st century we are seeing women play an increasingly active role in some areas of politics – for example, for the first time in history, in the second half of 2000 the Executive Committee of Congress was composed solely of women – this participation is still in its infancy. Much remains to be done to overcome gender inequality and ensure that women leaders have not only a social presence, but a political one too.

Diversity of appreciating a or exclusion requires that we recognize ourselves positive. National recognizing a the complex worlds, between the the early centuries, have cultures and languages. Countries adequately considered them cultural blending in heterogeneity, constructing serious verse the into are heterogeneity entails of gastronomy, and language, overlapping expressions from the early Andes. Apple\n
The pluralistic and integrated nature of national identity makes more sense if we realize that it does not only consist of a collection of individual identities and groups but that these, in turn, are built from a series of partial and fluid identities that mutually condition each other. For example, there are neighborhood, city, regional, national, and Latin American identities; the identities that come with belonging to religious groups, volunteer organizations, and sports clubs; those associated with gender, family, generations, and marital status; and those of academic centers, professions, and the workplace, as well as many other forms of identification with diverse elements and aspects of our environment. One example would be a young man from Cusco who lives in Calle Zaguán del Cielo in the San Blas quarter and enjoys speaking in Quechua, the language of his elders. At the same time he is a supporter of Universitario de Deportes football club, an anthropology graduate of Universidad San Antonio Abad, and feels sure that the Inca Region has the potential to offer him broad possibilities for his future advancement. He is also learning French with various colleagues from other areas, surfs the Internet on a daily basis, and identifies with the indigenous peoples of the Americas. This multiplicity of partial identifications that intertwine, overlap, collide, and mutually strengthen each other, as well as being arranged in a series of layers, add up to a sense of identity that—though imprecise and incomplete—define what it is to be Peruvian.

In describing and thinking of ourselves as a diverse country we must avoid extremes and seek a happy medium. To foment a national identity based solely on one’s personal views and enclosed in the context of “what is ours” carries the risk of advocating the existence of a single, self-sufficient, or superior culture that ultimately isolates and condemns itself to sterility. Emphasizing only heterogeneity leads to a flood of incoherent multiplicities and a view of diversity that prevents recognizing ourselves as part of a whole. We need to visualize ourselves as a diverse country without lapsing into the absurdity of incorporating so much diversity as to make it impossible to conceive of ourselves as a community and articulate a common vision of what we have been, what we are, and what we must become as a country. For this reason, the construction of a pluralistic, integrated, and continually evolving identity requires patterns of human interaction firmly inserted in a framework of democratic institutions designed to
FIGURE 8.1

Linguistic maps of Peru

Spanish

As % of total population
[85.0, 99.7]
[70.0, 85.0]
[47.0, 70.0]
[28.0, 47.0]
[4.4, 28.0]

Quechua

As % of total population
[68.0, 95.4]
[26.0, 68.0]
[15.0, 26.0]
[7.0, 15.0]
[0.1, 7.0]

Aymara

As % of total population
[30.0, 87.0]
[10.0, 30.0]
[1.5, 10.0]
[0.4, 1.5]
[0, 0.4]

Other native languages

As % of total population
[21.0, 84.9]
[3.0, 21.0]
[0.2, 3.0]
[0, 0.2]

Total population
497 107
126 526
65 376
20 294
50 a 3 000

ensure freedom of thought and action and to establish a way for all Peruvians to relate equally to each other as equals.

**Peruvian history and identity**

Insofar as it represents a common past, history creates a national image that moulds the evolving identity of Peruvians. However, history has not always been a unifying element of the nation nor has it been written based on consensualized interpretations of past events. The conceptions of the past held by a member of the armed forces, a mother in an elderly indigenous man in the Amazon, a businesswoman or young professional woman in the provinces, among many others, contain myriad divisions, metaphors, and interpretations that hinder the consolidation of a common image of the future and a long-term plan.

For this reason, it is necessary to promote ongoing dialogue, not only between our diverse cultures, but also between past and present, present and past on the one hand, and the future on the other. A common history and a shared vision of the future make it possible to conceptualize the tension between permanence and change, between tradition and renewal, that underlies a sense of identity. Knowing our history enables us to uncover the root causes of many of today’s problems and also to reflect on ways to improve the country and to implement the changes we desire. Without turning our backs on all the contents and meanings of a past that has very often been problematic and even traumatic, we must accept the positive and discard the negative legacies of history as the first step toward creatively designing a Peruvian community.

An integrated conception of past, present, and future should not seek to homogenize the diversity of aspirations and visions that exist in Peru but, rather, articulate them with respect for differences. In Peru there are many ways of relating to the past and the future. We need only look at the various linguistic realities. To cite some striking examples, in Quechua or runa simi the past lies before our eyes and the future at our backs. The Aymara language goes to considerable lengths to specify whether one knows something by personal experience or if that knowledge is secondhand. Accordingly, conceptions of the past vary according to linguistic contexts. The same occurs in the diverse worldviews of Peru’s various ethnic groups (Box 8.6).

Writing history means reconstructing what we are, and that is the starting point for rebuilding the Peruvian social fabric. The task of responsibly writing a basic history with which Peruvians feel they can identify is becoming increasingly urgent. However, there is a danger of this task becoming an “official history” that represents the interests of certain social groups and excludes the memories of other sectors of the population, or that arbitrarily highlights certain episodes in order to avoid in-depth analysis of other painful or problematic chapters. Examining the past can open unhealed wounds that continue to divide the country, but which need urgently to be confronted and discussed in order to prevent history from being a barrier to the creation of a pluralistic and integrated society with a common sense of identity. A basic Peruvian history requires appraising and systematizing many memories of the past, both distant and recent, in order, then, to interpret and place them in context, and not judge them from contemporary perspectives.

Chapter 4 underscores the need for an education system that reflects the country’s diversity but at the same time helps to reduce inequalities and eradicate exclusion. History teaching in schools supported by this basic history plays a very important part in the construction of a national identity, since it is one of the mechanisms by which Peruvians can begin to see themselves as equals and as heirs of a common past. In constructing this basic history we must avoid the pitfalls of omission and strive to include all our cultures and values. Constructing a basic history must also help us to become aware of our historical problems. This entails, for example, answering the question of how to approach our recent past of violence, terror, and repression, along with the wounds and divisions that were created or accentuated during the 1980’s and 1990’s.

No agenda has yet been drawn up of the themes that this basic history should cover, but we can highlight some that must be included. Without intending that the list below be exhaustive, Agenda:PERU conducted consultations with experts and members of the public and identified the following themes:

1. The origins of Andean civilization
2. The Conquest: trauma and foundation
3. Post-conquest social organization
4. The new world economic order: currency and the market
5. Evangelization: Catholicism and syncretism
6. Inca nationalism and the indigenous movement
7. Independence and the promise of a new Peru
8. The disaster of 1879-1883
9. Economic development: growth, crisis, and inequality
10. Winds of democratic change
BOX 8.6

The worldview of the Andean peasant farmer

Maria Angelica Salas' study systems of knowledge in the Peruvian Andes raises a vitally important issue for examining the future vision of the Andean peasant farmer. A number of peasant farmers made drawings that expressed their vision of a desirable future: their drawings depicted themselves, their social relations, and their relationship with nature. Their depictions represented how they see the world, their perception and mind's view of reality expressed in relation to typical elements of their society.

One drawing showed the countryside looking very like an urban or industrial landscape and prompted a reaction from the other peasant farmers, who, somewhat disconcertedly, observed that the bare hills and the absence of crops could not be associated with a better future. Furthermore they could not imagine a future without their homes, their relatives, the sun, the moon, or animals. This metaphor expresses a reaction against the tendency to deny the Andean identity by replacing it with a vision of modernity in which the rural world is rendered non-Andean. By contrast, the elements that appeared most frequently in the drawings were associated with the environment in which the peasant farmers lead their lives. The drawings contained elements symbolic of Andean culture (the mountains, the crop parcel, the Andean community, the family) and others that expressed cultural interaction (roads, trucks, school). Examination of the symbolic meaning contained in the more common elements found in the rural way of life gradually reveals the outlines of a vision or model of society that differs from the urban and industrial model. Maria Angelica Salas terms it "Andean utopia", which is the basis of the mental vision of the future constructed by peasant farmers based on their past and present.

This complex mosaic of future visions and development plans contains a number of basic ideas that warn of the perils of ignoring the visions of the future perceived by the various cultures in our country. The peasant farmer has a relationship with nature in which sacred and economic elements are closely intertwined; furthermore they feel that their ties with nature are built on a relationship of reciprocity. This same principle reinforces the strong family and community ties that shape the identity of Andean men and women. Also, direct democracy makes it possible to address the tensions that exist between individual and collective initiative in the solution of problems. These ties are permanently protected from the threat of dispersion by their respect for the history and knowledge represented in the oral tradition, rituals, songs, dances, and other forms of expression of Andean cultural diversity.

Source: Maria Angelica Salas, Papas y cultura: acerca de la intr靓丽cion de sistemas de conocimiento en los Andes del Perú, Dendo Wereld Centrum, Nijmegen 1996.

11. The issue of violence
12. Peru's entry into the world

At the same time, globalization is fast transforming national, regional, and individual identities, and rapid change frequently causes us to lose sight of fundamental values. Much of what affects our identity is being shaped in the broad "here" of the fractured global order and in the "now" of the immediate present. However, identities and values are built on a fixed location and tradition, by maintaining a territorial anchorage and by combining elements of the past, present, and future.

Integrating myths and metaphors

The rising awareness of the heterogeneity of our nation has highlighted the absence of integrating myths and shared visions. This lack has frequently prompted appeals and explicit demands for a "national plan," understood as a collection of consensualized objectives, policies, and measures to be implemented over the long term. The many efforts that have been undertaken in this respect over the last half century show how, in tackling the difficulties of constructing a national identity based on common and shared experiences, the authorities have used visions of the future as integrating metaphors or ideas to strengthen the concept of the Peruvian national identity and nation.

The construction of metaphors and conceptual ideas designed to cement a national identity is a complex and problematic task for society as a whole, in which all sectors have a part to play, consciously or otherwise. These metaphors should be capable of presenting a vision that integrates different views of Peru's past and history; incorporates Peru's plurality and heterogeneity; allows people to understand the reasons for Peru's social decline and weak institutions as its moves into the 21st century; and offers, furthermore, a meaningful vision of the future for the vast majority of Peruvians, given that each has a contribution to make.

This is a task for the medium and long term. The heterogeneity and diversity inherent in our history and modern-day reality indicate that this can only be accomplished through multiple initiatives that
must come from all sectors of society. To a large extent, rather than designing a plan with a concrete aim, this is a social process with its own dynamics from which it is possible to extract a number of elements for creating integrating metaphors and ideas, which, in turn, must be reinterpreted and combined within a vision of the future. Civil society fora that are open to dialogue and the possibility of reaching consensus for action seem to be the area best suited for undertaking this task. To some extent the activities of Agenda:PERU over the past seven years have attempted, through a broad consultation process with experts and ordinary citizens, to contribute to the design of a future vision and a development strategy.

VALUES, DEMOCRACY AND DEVELOPMENT STRATEGY

As mentioned in the preceding chapters, it is not possible to set about designing and implementing a viable and sustainable development strategy in the first two decades of the 21st century without first establishing and reaffirming a set of individual and collective values to support that strategy. This task requires finding a balance between the values of the past that we must recover and adapt to modern day reality, contemporary values that we must preserve and buttress, and other values that we must build and develop in order to meet the challenges of the future (Box 8.7). In particular, the values that will enable us to build a vision for the future and the notion of the common good are closely associated with democratic governance and practices, as well as with a culture of peace and of full respect for human rights.

The values associated with the construction of a democratic culture, such as equality of treatment, responsible exercise of authority and abidance by political and economic rules of play, are fundamental for implementing a development strategy and institutional reform. The sound functioning of institutions and the possibility of reaching consensus through dialogue and debate—thereby avoiding violence, authoritarianism, and imposition—hinge on these democratic values, whose practice must be encouraged at all levels, starting with the family and school, and extending to the business community and civil society organizations, as well as to state agencies and the top political authorities.

In the climate of economic recession and generalized poverty seen in the last two decades of the 20th century, the pressures of market reasoning, on one hand, and the collective tradition that characterizes broad segments of Peruvian society, especially in rural areas, on the other, have resulted in a clash of opposing forces. Peruvians feel they are being pulled in two different directions at once: on the one hand, toward collective action for improving their chances of survival and, on the other, toward individual action which is perceived as the key to success in the free market. Although the tensions between these two forces have produced examples of creativity, they have also heightened feelings of insecurity and anxiety in the general public.

The emphasis placed during the 1990s by the government, the business community, and some civil society organizations on the importance of individual values for the country’s development must be combined over the coming two decades with the promotion of collective values that bind the individual’s solidarity to the rest of society. Apart from indi-

BOX 8.7

The pertinence of Andean values

The prominent ethno-historian María Rostworowski has stressed the importance of restoring and disseminating traditional Andean values. She believes that some of the values, social behavior, and practices that predominated in the pre-Hispanic Andean world remain relevant and desirable today. For example, communal work, which has existed since very ancient times in this part of the Americas, is one way of coping with the rigors of a hostile biological and physical environment: "The community is very much a feature of ours but, at the same time, the solution used by ancient Peruvians to colonize extremely inhospitable areas like the puna, jungles, deserts, river valleys, coast, and highlands (...) Through a community spirit, Andean man overcame the problems and apparent difficulties described by European historians. (...) [Promoting a] community spirit for tackling environmental and ecological problems is something that should be encouraged as much as possible."

Planning and foresight were other highly valued practices in the Andean world: "Our ancestors managed an enormous level of planning and organization despite not having a written language or using written numbers. However, they were extraordinarily successful planners thanks, for instance, to the abacus and the quipu [an accounting system that uses strings and knots to represent quantities] (...) Planning was a very great virtue that was unfortunately lost with the arrival of the Spaniards, who conquered territories, imposed their customs and their bureaucracy."

To confront individualism and decline of values in contemporary society, Rostworowski advocates restoring certain Andean values that made a strong empire and society possible. "Peruvians today must learn all the values that existed in ancient Peru, all the Andean and ancient technologies that allowed their ancestors to establish powerful civilizations."

vidual values, such as honesty, responsibility, self-sufficiency, and the work ethic, it is essential to stress others, such as solidarity, mutual trust, and respect for others, qualities that strengthen the bond between citizens and their community and that involve them in the creation of a common future. This vision of the future entails a commitment, not only to work for the prosperity and wellbeing of others, but also to future generations, to the biological and physical environment that sustains us, and to the orderly settlement of Peru’s vast and often inhospitable territory.

At the same time, we must reject false values, negative outlooks, and ill-advised types of behavior – discrimination, racism, authoritarianism, imposition, exploitation of others, the law of minimum effort, corruption, swindling, violation of human rights, and others – that have become more conspicuous and gained strength at various chapters of Peru’s history, in particular when the political leadership has broken the law and betrayed the public’s trust.

**Values and strategic directions**

Each of the strategic directions discussed in the preceding chapters requires values to support it. The first strategic direction on transformation of productive systems and competitiveness (Chapter 3) requires economic values such as a work ethic and a desire to succeed. Transformation of productive systems is not possible if the myth of the “opportunist” operator who makes good without working at all persists, and competitiveness cannot be achieved with an apathetic attitude towards results. A positive and well-reasoned attitude to risk, an inclination to frugality and saving, and a constant drive for efficiency are attitudes and values that bring increased productivity, encourage innovation and modernization of the productive apparatus, and generate economic growth.

At the individual level, desire for advancement helps to achieve success, which deserves recognition and respect when it comes from personal effort. In the business community, individual economic sectors, or the economy as a whole, public policies must stimulate saving and investment, encourage formalization and ensure tax collection, promote competitiveness and technological innovation, and ensure that companies fulfill their obligations to employees and employees do likewise to companies. All of this must be accompanied by a positive attitude toward strategic planning that encourages businesses to adopt a long-term outlook when making short-term decisions.

In order to progress in the second strategic direction on equity, integration and social justice, and on reducing the accumulated backlog of social problems (Chapter 4) it is necessary to restore and reaffirm values such as teamwork, respect for the initiatives of others, and solidarity with those worse off than ourselves, in order to ensure equal opportunities for all Peruvians. Harnessing the energies and organizational capacities of civil society will make it possible to combine forces and increase the amount of resources available for combating inequality and poverty. Volunteer work, disinterested economic support, and reciprocity are manifestations of solidarity that are deeply rooted in our cultural traditions (Boxes 8.6 and 8.7). In order to ensure their effective contribution to social development it is important to start by recognizing others as equals and not to accept as “normal” the exclusion that affects the 50% of the Peruvian population living in poverty, and, in particular, the 15% that lives in extreme poverty and cannot even afford a basic basket of food.

The strategic direction on management of the environment, natural resources, and science and technology demands a set of values that are compatible with protection of the environment and sustainable management of natural resources, as well as others that stimulate capacity building in the area of scientific research and technological innovation (Chapter 5). All human activities should be carried out with knowledge of, respect for, and an approach that protects the environment, in order to avoid damaging ecosystems and irreversibly altering the ecological balance. A long-term approach that reflects a commitment to the well being of future generations must be the cornerstone of responsible management of Peru’s huge diversity of ecosystems and natural resources. This, in turn, demands a change of mentality toward the relationship between the environment and development (Chapter 5, Table 5.1).

For its part, promotion of scientific research and creation of technological innovation systems requires that society as a whole be aware of the importance and value of knowledge, especially in light of the extraordinary scientific and technological strides seen in recent decades around the world. At the same time, the expansion of technological knowledge and innovation must be such that it is capable of including the contributions of traditional wisdom and practices.

The fourth strategic direction on territorial organization and physical infrastructure (Chapter 6) demands adoption of values that allow us to envisage Peru’s territory as an integral whole, by accord-
ing the same importance to all regions alike and rejecting the overwhelming centralism of metropolitan Lima. The idea in doing so is to appreciate the value of a more balanced, orderly, and responsible settlement of the inhospitable lands in which we live by promoting a rational approach to the use of space and to construction of physical infrastructure.

Salvaging age-old values and practices could play a very important role in this task. For instance, the delicate management of ecological levels by the inhabitants of pre-Hispanic Peru not only entails a profound knowledge and awareness of the potential of their environment, but also a very close and respectful relationship with it (Chapter 6, Box 6.1). The construction of infrastructure must also be guided by these values, since proper organization of physical space is only possible with transportation, telecommunications, water, and energy distribution systems designed to address the challenge of integrating the country. Also, investments in physical infrastructure must be guided by the principle of solidarity with the poorest and most remote areas of the country by building infrastructure aimed at ensuring equity and equal opportunities.

**Values, Institutional reforms, and democracy**

The institutional reforms that comprise the warp of Peru's social fabric to be rebuilt over the next two decades also require values to support them and make them viable. The institutions – that guide standards of conduct, habitual ways of thinking, and forms of bonding – are one of the main points of reference for the transmission and acceptance of values. The generalized call in recent years for a strengthening of Peru's institutions stems from a rejection of the false "values" that govern the workings of an increasingly questionable and weak institutional order.

![TABLE 8.1](image)

**Values that support the development strategy and the rebuilding of Peru's social fabric**

<table>
<thead>
<tr>
<th>Strategic directions that comprise the weft</th>
<th>Transformation of productive systems and competitiveness</th>
<th>Integration, equity and social justice</th>
<th>Management of the environment, natural resources, science and technology</th>
<th>Territorial settlement and physical infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional reforms that comprise the warp</td>
<td>• Desire for advancement</td>
<td>• Recognition of other as equals</td>
<td>• Respect for the environment</td>
<td>• Appreciation of the value of our geographical diversity</td>
</tr>
<tr>
<td></td>
<td>• Efficiency, saving, and frugality</td>
<td>• Respect</td>
<td>• Commitment to future generations</td>
<td>• Rational use of space</td>
</tr>
<tr>
<td></td>
<td>• Appreciation of the value of change</td>
<td>• Solidarity</td>
<td>• Appreciation of the value of knowledge</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Work ethic</td>
<td>• Reciprocity</td>
<td>• Restoration of traditional learning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Planning and foresight</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reform of the state</th>
<th>Representation</th>
<th>Transparency</th>
<th>Democratic leadership</th>
<th>Confidence in institutions</th>
<th>Respect for rules of the game</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector reform</td>
<td>Appreciation of entrepreneurial success</td>
<td>Perseverance</td>
<td>Culture of trust</td>
<td>Corporate social responsibility, philanthropy</td>
<td></td>
</tr>
<tr>
<td>Civil society reform</td>
<td>Appreciation of the value of joint action</td>
<td>Tolerance, dialogue and consensus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reform of the security forces</td>
<td>Respect for life and human rights</td>
<td>Security as the task of all</td>
<td>Search for national reconciliation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The institutional reforms proposed in Chapter 7 have stressed the need for generalization and intensification of democratic practices in all walks of national life. Establishing the habit of engaging in dialogue designed to bring about an equal exchange of ideas and views helps to synchronize divergent and even contradictory interests. Democracy is both an end that recognizes autonomy, the will of the citizen and respect for plurality, and a means that enables the resolution of conflicts in a peaceful, fair, and efficient manner. However, in order to sustain the delicate structure of values, customs, beliefs, and practices that comprise democracy, it is necessary for all—in particular those in power—to abide by a set of rules of play that must be transparent and efficient; this implies a meaningful and responsible exercise of citizenship.

Reform of the state constitutes the first set of threads in the warp. The tarnished image of the state institutions (executive, judiciary, legislature, electoral system) stems from their inability to stay in touch with society and from the limited capacity they have demonstrated to satisfy the flood of social demands in recent decades. A legitimate state is one with which the citizens can identify, largely because they feel represented by the elected authorities and public officials, and because the state institutions heed and efficiently address their demands.

Furthermore, the manner in which leadership is exercised in government organizations sets the tone for the transmission of values. The conduct—good or bad—of politicians and senior public officials is highly conspicuous and sets the standard for the behavior of the rest of the citizenry. For this reason it is vital that officials in state institutions be aware of the responsibility implied by being the depositories of the public’s trust. At the same time, the citizenry must be aware of its obligation to demand that the authorities act in a transparent and responsible manner.

The private sector must embrace the values that support the transformation of the productive apparatus and competitiveness. Management must be guided by the search for profitability and continual improvements in quality and customer service; it must place emphasis on the creation of a work climate that stimulates innovation, increased productivity, and generation of profits. This entails abandoning practices like rent-seeking, abuse of market position, misleading advertising, improperly exploiting benefits granted by the state, pressuring employees, and bribing public officials.

It is also essential to establish a business culture built on trust that allows the certainty that agreements and promises will be honored. Trust encourages economic development, speeds up and promotes the creation of companies, and reduces operating costs. In addition, large companies must strengthen the sense of social responsibility they project through measures in support of the community, and by transferring expertise and providing technical assistance to associated companies with a less strong management capacity. This requires, for example, promoting the creation of business clusters of small companies that provide goods and services to large corporations (Chapter 3, Box 3.7). Social responsibility is part of the modern concept of the company and it is necessary to create a tradition of philanthropy among private sector leaders. In particular, large and medium-sized companies have the challenge of participating actively in the construction of prosperous communities that provide well-being for more people, to which end they have the possibility of working in conjunction with local government and civil society organizations (Chapter 7, Box 7.4).

Reform of civil society organizations must be based on values such as vocation for public service and the desire to help others, which are expressed through awareness of the role performed by volunteer civil associations as social interlocutors and in voicing the demands of the public, in particular those of the poorest. In order to boost their representation and legitimacy, these organizations must help to reduce the exclusion of social groups and broaden citizen participation in their activities. Therefore, they must reproduce within their organizations values such as democracy, transparency, and accountability, which will enable them to reinforce their image as service entities and avoid manipulation by government agencies, political movements, private enterprise, and even other civil society organizations.

Reform of the security forces must be founded on values like respect for life, human rights, and liberty. The very organizations in charge of protecting all Peruvians must not be permitted to endanger our security and violate our rights. Our recent history of violence, abuse, blackmail, imposition, human rights violations, and invasion of privacy by groups within the security forces, which some attempted to justify as a reaction against terrorism, must be put firmly behind us. To ensure this, it is vital to bring about national reconciliation based on exposure of the truth and denial of impunity (Box 8.9).

The armed forces and the police must strengthen their sense of patriotic duty to the community through unconditional respect for human rights and subordination to the political authorities, thereby restoring the values that more illustrious rep-
resentatives of their institutions have left as their historical legacy. Furthermore, the rest of society must be involved in security issues and not leave them as a matter to be addressed exclusively by the armed forces and the police. This requires greater knowledge of the security forces and a higher level of citizen participation therein.

Combating corruption

Institutional reforms must also be supported by a determined rejection of the corruption that has come to pervade much of the state apparatus, the private sector, and even civil society. Evidence that this is so is plainly visible in the daily reports of bribery of traffic police, judges, municipalities, and other authorities. However, corruption is also found in other, less visible areas of state activity, such as use of insider information to obtain illicit gains. For this reason, combating corruption requires close cooperation between the private business sector, the state, and civil society.

Unfortunately the use of public funds for private ends is very commonplace in relations between government officials, businessmen and members of the public at all levels. It has extremely negative effects on the functioning of the market and state institutions, distorting allocation of funds, increasing operating costs, and undermining the activities of government agencies. High-level corruption in government and the private sector is the most damaging of all, not only because of its direct effects, but also because it causes loss of trust and sets a bad example to the public.

Although the elimination of a number of government entities in which officials had discretionary decision-making powers has reduced the possibilities of corruption, new ways have emerged to obtain illicit benefits at the cost of the state (improper manipulation of public tenders and procurements, markups on materials, illicit transactions protected by official secrecy; improper use of insider information in privatizations and other transactions with government agencies, influence peddling in decision-making and lawmaking, among others). Apart from honesty, combating corruption requires a deep sense of civic responsibility. A person who offers a bribe is just as guilty as a person who accepts one; both betray the public trust, obtain illicit benefits, and create the conditions for dishonest practices to be accepted as “the norm.”

Corruption does not stem from poverty but from dysfunctional behavior and harmful practices created by a poor incentives system and lack of control mechanisms. Many countries have managed to reduce corruption significantly by reforming incentives systems in the public sector, putting in place more efficient control mechanisms, and persuading the public that corruption is something that should not be tolerated. Finally, an autonomous, honest, and efficient judiciary capable of administering justice in an impartial manner and of punishing the corrupt, regardless of rank or position, is crucial to combating corruption.

The trammels of authoritarianism

The authoritarianism and arbitrary use of power that permeate relations in Peruvian society—from the highest levels of government to the private household—are two of the main obstacles that must be overcome in order to progress along the strategic directions we have set out and to implement institutional reform. Democratic values and practices—periodic and free elections, alternation of power, transparency in the performance of public duties, accountability, respect for minorities, access to public information, among others—are a necessary condition for institutional reform and for bringing us closer to a desirable future vision for our country.

Peru’s history and its current situation reveal tendencies toward both authoritarian and democratic behavior at all levels of society. The political conduct of Peruvians is not essentially authoritarian but, rather, reflects a dual historic personality that reveals both democratic and authoritarian tendencies at the same time. The prevalence and consolidation of one or other tendency depends to a large extent on the way in which leaders exercise power and authority at the highest levels of government, and on the dissemination of democratic values in society. Furthermore, there is no contradiction between efficient government and full democracy, since democracy is the only system that ensures economic efficiency, capacity to adapt, and the flexibility that leads to development in an ever-changing world. Moreover, any form of government that is intolerant or afraid of criticism, and is built on manipulation, imposition, and fear, closes the doors on the future. Authoritarianism is not inevitable; on the contrary, it is retrograde and unsustainable in the long term.

Authoritarianism fosters a culture of loyalty based on intimidation, where the orders of superiors are accepted without demurral. Fear impedes dialogue and exchange of ideas, and subordinates do not speak their mind so as not to “get on the wrong side” or incur the enmity of the authorities. In this way, a system is set up in which a few individuals decide for the majority, who, in consequence, have
In order to be a good leader it is necessary to know, among other things, when and how to step down. This is, perhaps, the most difficult thing for the person who holds the highest office in the nation to learn. History shows that too many leaders have not known when the time was right to leave: on the contrary, they have tried to stay on for longer than was best for the country and for themselves.

The problem is that for a leader power can be like a drug. At first one exercises it a little at a time - sometimes with a degree of caution - but it gradually takes control of them if they use it continuously and without checks and balances. By shutting themselves off in a world of increasingly distorted perceptions, those who allow themselves to be taken over by the power drug eventually seek absolute power, convinced that it is best for the people that they govern.

The political history of the West of the last few centuries can be summed up as a search for ways to avert the social upheaval caused by the power drug. The result of that search has been the democratic political system, characterized by the existence of checks and balances in the exercise of power. Political plurality, respect for the rights of minorities, delegation of authority, and separation of powers are some of the mechanisms that prevent the concentration of too much power in a democracy.

However, there is always someone in the leader’s retinue who stimulates their consumption of the power drug. Perhaps acting with the best of intentions, this is done by those who are in favor of immediate presidential reelection in a political system such as Peru’s, in which there are few effective controls over the president’s authority. Alteration of the presidential term is the only guarantee that prevents the continual exercise of power, from causing the leader and their retinue to lose perspective, increasingly isolate themselves from the people they govern, and, ultimately, undermine their own accomplishments.

As a result of authoritarianism, the public’s legitimization of and identification with the state centers almost exclusively on the executive branch and, in particular, on the figure of the president. At the same time, the authoritarian government seeks to underline the supposed efficiency and effectiveness of institutions that, whether by function or by tradition, are not transparent, such as the intelligence services or the armed forces. By a variety of means the attempt is made to remove citizen supervision of the public bodies, entities, and organizations that perform executive functions, using the argument that accountability is an obstacle to efficient action. In doing so, the idea is to make more room for the arbitrary exercise of power without checks and balances.

The measures aimed at guaranteeing a second presidential reelection that were set in motion in 1996 constitute a clear example of authoritarian behavior which must be rejected and condemned. The use of a wide range of resources at the disposal of the state apparatus to cling to power weakened the institutions that are supposed to be a balance against the executive branch. The control and political manipulation of the executive commissions set up to reorganize the judiciary and the prosecutor’s office, legal provisions that granted the same powers to provisional judges as those held by permanent judges of the Supreme Court (which enabled them, among other things, to be appointed as members of the National Electoral Board, JNE), the dismissal of the members of the Constitutional Tribunal who did not support the so-called authentic interpretation of the Constitution, the use of government social assistance programs for putting pressure on leaders of grassroots organizations, eavesdropping on opposition leaders and journalists who exposed cases of corruption in the government, among other measures, were aimed at clearing the way for a second reelection of Alberto Fujimori in 2000.
Along the way, this obsession with reelection left the public without legal security and perverted the functioning of state institutions, in particular the judiciary, which ceased to be a body for the protection of the public’s rights and became an instrument for the arbitrary exercise of power. Once their political power had been compromised, the prestige of the institutions affected — whose sound functioning is crucial to consolidate democracy — became even more tarnished and they developed into breeding grounds of corruption.

In addition, the sabotaging of the referendum mechanism (through the creation of obstacles not provided for in the Constitution to prevent the public from opposing a second reelection), the infiltration and manipulation of the electoral authorities, and the continual attacks on independent journalists who opposed a third presidential term for Alberto Fujimori, eliminated and subverted the channels that serve to express the will and reasoned opinion of the public. Added to this was the use of executive branch authorities, the parliament, and the judiciary to neutralize political opponents, either by adopting measures designed to intimidate them or simply by threatening such measures. Furthermore, the influence of the executive branch on the public television networks, the only medium through which two-thirds of the Peruvian population receives information, prevented members of the opposition and independent thinkers from being able to broadcast contrary or alternative views to those of the government. Finally, the government-controlled tabloid press was used to slander, insult, and attack the reputation of political adversaries.

All of this shows the dangers of authoritarianism which is closely associated with attempts to hold on to political power for as long as possible and remain free of checks and balances. In order to ensure that the democratic tendencies and values that are part of our dual historical personality can prevail, it is necessary to embark on an array of initiatives in the areas of education, the mass media, and exercise of leadership at all levels of national life (Chapter 9). Furthermore, the legal framework in which state institutions operate, in particular the electoral system, must promote the consolidation of democratic governance. For instance, in countries where the executive branch has a great influence on political affairs it is vital that immediate presidential reelection be prohibited (Box 8.8).

**Human rights and culture of peace**

The reaffirmation of democratic values is based on each member of society’s knowledge of his or her duties and rights. The sense of belonging to a community is nurtured by individual responsibility, equality of citizen rights, and a civic culture applied both to issues of national importance and to those of everyday life. It is important to defend the political institutions of democracy as well as to combat abuse in all state institutions.

The unrestricted defense of human rights constitutes the foundation of an egalitarian and participatory society, in which everyone helps to pave the way toward the common good, and in which individualism and competition are balanced by social awareness and solidarity. In order to ensure respect for human rights it is essential to break with the past of violence and fear, of human rights violations and intimidation, associated with the authoritarian exercise of political power. It is vital to reject outright the use of violent means to achieve political, economic, or social objectives. There is no justification whatever for the violence unleashed during the 1980’s and 1990’s by the Shining Path and the MRTA, who led the country to the brink of ruin and systematically violated the human rights of thousands of Peruvians.

Breaking with this recent past of violence does not mean we should either forget it or — sometimes literally — “bury it”. We must move toward reconciliation and a culture of peace by promoting the peaceful resolution of conflicts which, inevitably, are an integral part of social interaction. However, moving in this direction requires, first that we confront those years of violent conflict in which our society was brought to a virtual standstill by fear of terrorism and of being wrongly named a terrorist, as well as fear of the insane violence wrought by the Shining Path and of the indiscriminate repression of the armed forces. We must lose our fear of fear. The thousands of victims whose most basic human right — the right to life — was brutally violated, deserve to be mourned collectively by all, so that, by reflecting on what it was that led us to this tragic situation, we can prevent it from ever happening again in the future.

If we are adequately to assimilate this difficult chapter in our recent history we must reach a fair medium between forgetting and revenge, between the turning of a “new leaf” that favors impunity and the “witch hunt” that makes no allowance for degrees of responsibility in those who took part in human rights violations. A necessary condition for reaching this fair medium is to know the truth; reconciliation is not possible without knowing what happened and who the culprits are. In order to make the transition from pacification to reconciliation it is necessary to recognize, in particular, the excesses and
The experience of countries with a sad history of human rights violations (South Africa, Chile, Argentina, and others) demonstrates the importance of truth and reconciliation commissions. The main objectives of these commissions are to clarify facts, administer justice, and repair, insofar as possible, the harm caused. Some focus more on the search for the truth and others on the process of reconciliation itself. All seek to help to understand and surmount what has happened, by putting society in touch with its past and articulating an emphatic "never again" in order to move on toward a culture of peace.

A country that has experienced periods of violence cannot live without knowing what happened; forgetting and self-deception are ways of accepting human rights violations as legitimate. Knowing the truth makes it possible adequately to confront the facts and their implications; without that, pardon turns into impunity and punishment becomes revenge, which paves the way for new episodes of violence in the future.

There are two aspects to the administration of justice by truth and reconciliation commissions. First they must resolve cases of people who have been wrongly convicted, and for that a pardon is not enough: their names must be cleared. Furthermore, the state must provide compensation for the victims and their families, thereby assuming the cost of their mistakes. Second, it is essential to put on trial those who failed to respect the right to life, who have tortured, and who have committed gross human rights violations. Impunity should not be encouraged out of fear of a reaction from those who, under the protection of the armed forces and the police, committed atrocities. At the same time, justice should not be confused with persecution, in particular with regard to subordinates or those without effective decision-making power over what occurred. The search for truth and reconciliation includes pardoning lesser offenses, and punishing the main culprits of grave human rights violations.

The creation of truth commissions must have the backing of the state, civil society, and the private sector. Their members must be independent figures, with irreproachable reputations and moral standing. Furthermore, commissions must include the participation of representatives of organizations regarded as neutral and trustworthy (churches, professional associations, universities). Commission members must be accepted by all the parties who took part in violent conflicts and by the victims thereof.

The main function of a truth and reconciliation commission is to prepare a detailed report on what happened during the period of violence, which must include precise recommendations to the state. The commission must broadly divulge its findings and make available to all the public detailed information regarding the violence and human rights violations.

**Errors and Globalization**

In addition to the values that must be restored, reaffirmed, and constructed to progress in the strategic directions and institutional reforms described here, it is essential to pay attention to the values that encourage initiatives aimed at securing Peru’s place in the new context of the fractured global order (Chapter 2).

Although the rapid pace of change in the domains of the networks and the global (Chapter 2, Figure 2.1) generates uncertainty and anxiety, it is crucial to keep an open and receptive mind to external influences and, at the same time, to seek to project our own influences on the world that surrounds us. However, we cannot adequately participate in the fractured global order without first affirming our own sense of cultural identity and without stimulating a change of mentality that allows us to appreciate the importance of the outside world to our development in its true dimension. In light of the values associated with this sense of identity and with a vision of
the future, it is vital to evaluate every kind of contribution – from ideas and thought patterns to consumer appliances and consumption patterns – placed at our disposal by a multitude of actors in the fractured global order.

Appreciating external influences in their true dimension entails – once more – striking a happy medium and a balance, this time between a predilection for things foreign and an atavistic attachment to what is ours. It is important to provide all Peruvians with the means to judge and the values to assess critically, but without chauvinism, the things that come from outside. We must not assume that everything that is imported is necessarily better than what we produce at home.

Furthermore, it is necessary to be aware of the ambivalent nature of scientific and technological progress in developed countries, which are creating a deep gulf in capacities to generate and use knowledge (Chapters 2 and 5). The ethical dilemmas associated with discoveries and developments in biotechnology and medicine – genetically modified crops, use of genetic material extracted from poor countries, xenotransplants, genetic therapies, and many others – affect developing countries in particular. Very often we end up receiving the impact of these new technologies and discoveries without being conscious of their meaning, and in some cases developing countries wind up as laboratories for studying their effects. For this reason, it is essential to develop the capacity for social evaluation of technology which, among other things, enables making informed decisions about importing and using advanced technologies.

**Attitudes, values, and identity: The role of education, the mass media, and cultural promotion**

Changing mentalities, constructing a national identity, and affirming democratic values are tasks that can only be adequately tackled from a long-term perspective, and with the participation of a wide range of state, civil society, and private sector organizations. Bearing in mind the time that these tasks take, it is urgent to begin them as soon as possible. The main areas that these tasks involve are education in its broadest sense, the role of the mass media, promotion of arts and sport, and exercise of leadership. In each of these areas it is necessary to combine initiatives that come from all walks of national life while at the same time recognizing that the state has a special responsibility for encouraging them.

The pessimistic view that many Peruvians take of their current situation and of their future prospects obstruct the adequate pondering and undertaking of these tasks. It is imperative to set aside the sense of frustration and the fatalistic attitudes that are the result of decades of ongoing economic, political, and social crises, as well as our country’s poor performances in a variety of fields and on countless occasions. We must restore our optimism, contentment, and confidence both in ourselves and in our capabilities. A sense of positive affirmation coupled with a vision of the future and a notion of the common good that guide our development efforts are values and attitudes that all Peruvians must adopt.

However, it is important to temper optimism with a good dose of realism and a critical appreciation of our position and potential. Otherwise we risk falling into the trap of voluntarism that pays no attention to limitations, and which, when efforts fail, ultimately creates even more frustration and pessimism. Fluctuation between periods of high hopes and long intervals of despond has left a deep scar on the collective psyche and generated a lethargy tinged with fatalism and skepticism. Breaking out of the cycle of frustration and pessimism requires visions and ideas capable of harnessing energies and wills, as well as responsible leaders with the capacity to inspire Peruvians to give of their best (Chapter 9).

To a great extent, human beings are the creators of their own destiny. The past and present which have been our lot to live were not inevitable, and nor is the future. We can assume a variety of attitudes, from passive acceptance of what has been presented to us, to being active, innovative, and creative agents of change. It matters greatly what attitude we adopt, particularly in a period of huge transformations on the international plane and in our own situation, and in which, at the beginning of the 21st century, a new generation of leaders are in the ascendency.

**Education, identity, and values**

One of the main avenues for disseminating values, images, and ideas is education in its broadest sense, by which we do not only mean the formal education system. As well as transmitting knowledge and methods of reasoning, education instills values and attitudes that help to shape the individual and collective identity, a task in which the family, the social environment, schools, higher education centers, and a broad range of public and private institutions all take part.
Educational reform (Chapter 4) must incorporate the transmission of values and attitudes that reflect, strengthen, and help to construct a pluralistic, integrated, and continually evolving national identity. It must make available to all Peruvians, in particular children and young people, an array of concepts designed to promote equity, solidarity, self-confidence, respect for others, continuous learning, and a positive sense of the future. As mentioned in the preceding chapters, history teaching has a very important role to play in transmitting concepts that reaffirm our sense of identity.

An education that aims to reaffirm identity and values must enrich the repertoire of ideas and conceptual elements to help learn about and interpret the reality that surrounds us – at the same time as developing a critical attitude and an outlook on the future that reinforces capacities to conceive, design, choose, and realize our individual life plans. Education must transmit ideas that encourage equal treatment for men and women, for Quechua and Spanish speakers, and for urban and rural residents, among other ways to appreciate our diversity and to prevent differences from turning into inequalities. Citizen education has a very important part to play in this process of reducing inequalities and creating opportunities for all, which is something that is also closely connected with democratic practices (Box 8.10).

The role of schoolteachers is crucially important in transmitting values. The teacher-student relationship determines, to a large extent, the future attitudes and behavioral patterns of children and young people, in particular in their dealings with authority. An education based on hierarchical relationships and total submission to the teacher, and which, furthermore, mainly uses methods of repetition and memorization, suppresses students’ creativity and conditions them to accept authoritarianism and to act in an authoritarian manner themselves. For this reason, training and motivation of teachers must be a priority of educational reform and focus on changing patterns of interaction between teachers and students. In addition, educational materials must reflect our country’s diversity and contribute to the transmission of values, at the same time as putting students in touch with the international context and, in particular, with scientific and technological progress. The aim is to make citizens of Peru and of the world who are capable of seeing their own situations and options in connection with events in the context of a fractured global order.

Knowledge of our country combined with promotion of domestic tourism (Chapter 3) is one way of directly transmitting the variety of visions and values that shape a sense of national identity. The aim is to provide all Peruvians, in particular the young, the chance to travel all over the country and to learn about Peru’s extraordinary geographical and cultural diversity. Appreciating our cultural heritage, including archeological remains, colonial churches, historical monuments, a huge variety of ecosystems, and various manifestations of living culture (astronomy, languages, age-old festivals) must be an integral part of the education process. This task of promoting domestic tourism requires the joint action of the central government, local government, public and private schools, the private business sector, and non-governmental organizations.

Although the formal education system is very important to the upbringing of children and young people, the family is the main social institution in creation of values and identities. However, parents have to contend with all kinds of obstacles in performing this vital role of bringing up their children to be responsible persons and citizens. Adult education programs for parents as well as support services provided by the community and state institutions can help to overcome problems such as parental authoritarian behavior and domestic violence, which have a particular impact on children and which transmit profoundly negative behavioral examples.

Simultaneous Peru: values, identity, and the media

The media, in particular the public television networks and radio, play a crucial role in the construction of national identity and transmission of values. The speed and fluidity with which information is transmitted by radio, television, and, to a lesser extent, the written press help to create a simultaneous Peru, in which Peruvians share ideas, images, and reactions – at least at given moments and on specific issues.

As shapers of public opinion – and not just sources of information and leisure –, newspapers, magazines, radio, and television are in a unique position to promote and stimulate public interest in collective problems, the notion of the common good, and a shared vision of the future. Debates organized by some newspapers and magazines help to inform readers better about national development options; radio programs in which listeners can call in by telephone to ask questions and make observations have created opportunities for dialogue for a broad public that offers opinions on matters of common interest; and the scope and impact of television has turned it into an unparalleled medium for reaching the majority of the population. In this way, the mass media
can help to promote progress in the strategic directions and institutional reforms proposed here, and, above all, to create a sense of national identity and restore, reaffirm, and construct values.

The public television networks occupy a very special position in the media: they are the main vehicle of information for the vast majority of Peruvians (an estimated two-thirds of the population receive information only by television). Accordingly, television has a primary responsibility in shaping public opinion and transmitting images and patterns of behavior.

However, financial problems and infighting in the majority of television networks have conspicuously highlighted the tension that exists between free enterprise and the rights of citizens to be well informed. During the 1990’s financial pressure and political blackmail made the difficult task of balancing the functions of entertainment, education, and information even more problematic and complex in the public television networks. As a result, the television networks surrendered their social responsibility and lost their independence from government.

Direct pressure (withholding of state advertising and access to public sector information) and indirect pressure (harassment from the courts and the tax authority) by the government meant that many television networks, in particular the public networks, played a very negative role during the 1990’s. Barring a few honorable exceptions, they supported and broadcast systematically distorted information about political events, allowed themselves to be manipulated by hidden interests, and collaborated in the authoritarian exercise of political power. Added to this were intimidation and persecution of independent and opposition journalists, which made it even more difficult to have access to accurate and reliable sources of information.

In order for the mass media to play a positive role in the transmission of values it is necessary that they not act only according to commercial criteria, but that they assume their social responsibilities in full. Among other things, this entails accurate and truthful reporting, clearly distinguishing information from opinion; refraining from broadcasting programs which, on the pretext of humor, debase certain social and ethnic groups; exercising caution about the val-

**BOX 8.10**

**Content of citizen education**

One of the many activities that Foro Educativo carried out to stimulate debate and consensus on educational reform in Peru was a study to define the contents of citizen education programs that target children, young people, and adults. The themes identified by the study were as follows:

**For children:**
- Strengthen self-esteem and identity.
- Develop specific positive discrimination strategies for children in depressed areas.
- Develop mechanisms to combat ethnic, cultural, and gender discrimination.
- Encourage learning processes that actively involve the child.
- Include values in all course subjects.
- Encourage collective participation activities.
- Create public fora for child development.
- Instill in children a culture of dialogue and negotiation.
- Develop notions of organization based on horizontal and not vertical relations.
- Encourage child-adult relations of mutual learning.
- Stimulate relations between children and their environment based on awareness, play, and responsibility.

**For young people:**
- Develop identity through affective relations and expression of aspirations.
- Encourage an outlook that combines values with competition.
- Stimulate self-esteem and channels of participation.
- Promote free relations of personal affirmation and leadership learning based on independent organization.
- Encourage initiative and creativity in actions for the good of the community.
- Develop values of equity in gender relations.
- Encourage positive leadership.
- Develop public areas.

**For adults:**
- Give priority to training in basic skills and abilities that might enable them to overcome educational disadvantages.
- Disseminate citizen rights and responsibilities.
- Emphasize the value of a culture of effort and work, and consolidate a culture of achievement.
- Respect and appreciate cultural identity.
- Encourage a culture of dialogue.
- Combat the disadvantages of women.
- Strengthen the tradition of community-based organization and leadership associated with development goals and democracy.
- Stimulate public participation based on the values of tolerance, responsibility, and respect for others.

ues transmitted by entertainment programs, in particular soap operas; showing the diversity of cultural, geographical, and social expressions found in Peru, thus helping to create a positive image of the country; and helping to build consensus on a vision for the future and a development strategy. A necessary precondition for this is to maintain their independence in the face of political and financial pressure from the government and the private sector.

The State’s role in the mass media is an issue for debate and discussion, but there are a number of basic principles that must guide relations between the political authorities and media proprietors and journalists. The State must respect the autonomy and independence of reporters, provide equal access to government information sources, establish clear rules of play on the distribution of state advertising, and refrain from applying pressure through state entities (for example, the tax and media licensing authorities). Furthermore, the state-owned media must be placed under the direction of independent bodies that represent the interests of all Peruvians and not only those of the incumbent government. In addition, it is up to the State to promote and support transmission of cultural programs of all types, thus ensuring that commercial interests do not dominate media broadcasts.

Promoting creativity, the arts, and sport

Stimulation of creativity, support for artistic expression, and promotion of sport are mechanisms for reaffirming a sense of identity and helping to create and transmit values. Creative activities of every type, from scientific research and technological innovation to fine arts, dance, and literature, as well as everyday expressions of imagination and ingenuity, contribute to the development of a positive attitude to life. Over and above the satisfaction of basic needs, human beings are motivated by a desire for transcendence and emotional wellbeing, which finds its expression in the joy of living and is satisfied through creative activity. The difficult circumstances that have befallen Peru in recent decades have meant that these expressions of creativity and joy have been less frequent than they should and need to be.

Stimulating creativity must be a part of public policy, particularly in the fields of culture, science and technology, and education. State policy must also actively involve the private sector and civil society organizations. It is very important to create stimuli and awards that recognize creativity in all its expressions, particularly in children and young people. Some private companies and higher education centers have launched initiatives in this area, but they need to be increased and broadened. The lack of action on the part of the State to encourage creativity is particularly worrying, since, above all, this is a task for public sector entities.

Artistic expressions of every type – literature, fine arts, music, dance, theater, film – have long been an integral part of Peruvian life and many Peruvian artists have won international recognition for their work and contributions. This creativity contrasts with the scant support that the arts receive from the State and the private sector. Julio Ramón Ribeyro’s aphorism, “How difficult it is to be a Peruvian in Peru,” captures the frustration felt by many artists and writers who, despite acknowledging the country to be a source of inspiration and creativity, find that they cannot fully express this under the conditions found in Peru.

The artistic expressions contained in our cultural diversity help to shape our sense of identity and deserve priority support as part of a state cultural policy. To provide one specific example, the traditional dances found in Peru’s different regions could become, like the Folkloric Ballet of Mexico, a source of national pride and cultural integration, as well as a channel for expressing values such as appreciation of things Peruvian and recognition of the diversity of the country’s cultural expressions.

Sports promotion is another means to transmit values, in particular those of discipline, competition, and teamwork. Sport helps to create a positive attitude to life as well as contributing to physical and mental good health. In spite of the occasional emergence of prominent sports men and women, Peru is noted more for its frustrated ambitions than for its success in international competition. Attempts to broadly and systematically disseminate a sports culture across the country have also failed. Improvisation and attaching more importance to individual genius than to training are the main reasons why Peru has failed to become a leading sporting nation, with the notable exception of its women’s volleyball team. However, this situation could be redressed in the medium term through systematic efforts with children and young people, provided that support for and citizen participation in sports activities and development can be mobilized.
The rebuilding of Peru’s social fabric, which we must accomplish by interweaving the threads of the weft – strategic directions – with those of the warp – institutional reforms –, will produce a design and a color scheme that represent a pluralistic and integrated sense of identity in continual evolution. Culture and values supply the material for the threads and the framework of the fabric, which will we will only be able to remake through enormous, collective, and sustained effort. Identity, culture, and values are as important as the strategic directions and institutional reforms; moreover, bearing in mind that the pace of change of the former is slower than that of the latter, changing attitudes and mentalities must be addressed as a matter of priority and urgency.
Part Four

FINAL COMMENTS
THE NEXT STEPS: TOWARD PUTTING THE STRATEGY INTO PRACTICE
Introduction

The preceding chapters have outlined a development strategy for Peru with a timeframe of two decades. The central objective of the proposed policy measures and institutional reforms is to advance toward prosperity and wellbeing for all Peruvians. It is to achieve the common good - understood to be the capacity to imagine, design, select and carry out our own life projects. Using a textile metaphor employed throughout this text, the task now is to go from the design to execution, beginning to unite the weft threads of the strategic directions with the warp threads of institutional reforms. This is a joint and ongoing project. The fabric should be rewoven from many places at the same time and at every moment, intertwining the great diversity of threads, colors and knots that represent our pluralistic cultural identity.

The motivation for designing the development strategy presented by this work arose slowly from 1993, when the program Agenda: PERU began. A first report - Democracy and good government, published in 1995, re-edited in 1996 and updated in 1999 - identified a widely shared aspiration: to have a vision of the future and a development strategy that serves as a framework to articulate the endless number of individual initiatives that have emerged up in Peru during recent decades. This initial motivation was reinforced as the work of Agenda: PERU progressed, crystallizing at the end of 1998 in the project that led to the preparation of this report.

As indicated in the first chapter, the idea that Peru continues to be "the country of lost opportunities" has penetrated very deeply into the beliefs of citizens. During almost eight years of work in various parts of the country we witnessed, over and over again, the frustration accompanying the perception that the results of our efforts do not justify the energy and determination that we put into them. This poor performance is frequently attributed to political leaders' inability to lead the country's destiny along a good path - what Jorge Basadre called "the desertion by elites." At the same time, this has led to a generalized demand for a new style of political leadership, that at the start of the 21st century ought to be capable of articulating a development strategy that generates a wide consensus in the citizenry.

The governance crisis that affected Peru for the last three decades has caused the long-term outlook to be lost. The difficulties and uncertainty with which the future has been viewed have left little room to exercise the imagination. The combination of terrorist violence with economic decline during the 1980s and a good part of the 1990s - with its consequences of hyperinflation, unemployment and generalized poverty - made it difficult to pay attention during this period to any matter that went beyond the immediate. At the end of the 1990s, concerns about the future took on a different form. Even though for the great majority of Peruvians the future continues to be the short term, they also express a preoccupation with leaving future generations a viable, secure and democratic country.

Moreover, the determined participation by young people in national life at the end of the 1990s has changed the political scenario. Young people are fully aware that what happens in the next few years will define their prospects for the future and will define the path the country takes in the first decades of the 21st century. Their worries, their initiatives and their presence in a series of public spaces signal that a process of renewal of Peruvian political institutions has begun (Chapter 7 and Box 7.7).

The questions asked by Agenda: PERU during recent years have shown that the ability to reflect critically on the experiences of the recent past has begun to recover: also that there exists an enormous desire and firm will to explore possible paths to future development of our country. At present an ever wider consensus is growing that shows that this future is directly linked to consolidating a solid, stable democracy. At the start of the 21st century, Peruvians are less disposed to sacrifice democracy for the assumed "efficiency" or for "results" associated with authoritarianism. The problem of institutions occupies a priority position on the citizen
agenda: the political crisis that affects every sphere of national life has turned the restoration of democratic institutions into a prior condition to move again toward prosperity and wellbeing.

However, it has also been possible to see that there is a long road ahead to create a shared vision of the future; Peruvians have not yet abandoned the mental make-ups and conceptual frameworks that accompany situations overcome, being overcome and still to be overcome. This underscores the urgency of changing mentalities, modifying ideas and adjusting concepts used to interpret the current situation and to bring them into line with the demands of new times (Chapter 8).

The present report is an attempt to respond to citizen demands for a long-term development strategy and a framework to orient actions by the State, the private sector and civil society in the short and medium term. The strategy design for the 21st century used the methodological focus of Agenda: PERU, which emphasizes consultations with experts and citizens, in the search for operating consensuses and dissemination of results (Box 9.1). During the two years it took to prepare the present report, a series of studies carried out within the framework of the Agenda: PERU program were incorporated, as were the contributions of a large number of investigators and researchers into the reality of Peru. The objective was to offer a joint vision by articulating an overall development strategy for Peru with a 20-year timeframe.

Even though the comprehensive focus for the design of development strategies that were in vogue three or four decades ago lost force beginning in the mid-1970s, by the end of the 1990s the emphasis was again on the overall development process. This underscores that progress toward prosperity and wellbeing depends on the interactions among a variety of economic, social, political, environmental, institutional features and values. For example, the “Comprehensive Development Framework,” proposed by the president of the World Bank at the beginning of 1999, and currently being executed in a dozen countries, is a recent attempt to restore the importance of a systematic focus for designing development strategies. The strategy proposed in the preceding chapters corresponds to this renewed focus, giving priority to strategic planning and studies of the future (Chapter 1, Box 1.5).

To go from design to action it is necessary to generate consensuses and to mobilize broad support for the strategy, define priorities and a sequence of action for the short- and medium-term to guide the allocation of resources, and to find leaders capable of putting the strategy into practice in a democratic, open and participatory way. Moreover, the move from design to action ought to respond to the urgent demands of the critical moment that the country is experiencing as the 21st century gets underway, showing the citizenry that there is a vision for the future to articulate the multiplicity of initiatives that are still dispersed. The most frequent responses to the presentations made by the Agenda: PERU team in various parts of the country has been “Now I know where what I’m doing fits in,” “This lets me put in context the initiatives we are taking,” and “This shows that it’s possible to coordinate efforts. Why aren’t we doing so?”.

Putting the strategy into practice demands a convergence of efforts; those who wield political power and the citizenry in general need to work together. On the one hand, it is not possible to progress toward the common good only with initiatives and actions by those who exercise political power and authority at the highest levels; progress on the strategic directions and institutional reforms is not imposed by decree. On the other hand, one cannot expect that initiatives from grassroots and civil society organizations can, by themselves, lead to prosperity and wellbeing; without support from the political power it is very likely that, sooner or later, they will become exhausted and lead to frustration. Only a combination of actions from the political power and from the grassroots will allow the strategic directions and institutional reforms to move forward and to mutually reinforce each other. At the same time, the social fabric should be rewoven from many places, from above and below, and in a continuous manner.

However, it is not easy to build operating consensuses that can overcome the persistent polarization and political fragmentation of Peruvian society – that has reached unprecedented levels during the last two decades – to express a true convergence of interests and aspirations for designing and implementing into practice the strategic directions, institutional reforms and measures to move toward democratic governance. The temptation to remain at the level of apparent agreements, without making evident the discrepancies that arise when digging into the interests and motivations of the different social actors, constitutes a first difficulty. A second obstacle is the tendency toward negative consensuses – toward what one does not want, what one rejects – on which it is relatively easy to agree, but which does not lead to a confluence of interests nor express the will to unite efforts. In the third place, given that it is not possible to expect the road to operating consensuses to be without potholes, it is necessary to establish procedures to resolve the conflicts that inevitably must arise in the democratic
BOX 9.1

The methodological approach of Agenda: PERU

The central idea of Agenda: PERU has been to take up the problems of democratic governance, institutional reforms and the development strategy, in an open, participatory fashion. The idea was for the project itself to turn into a democratic exercise by creating spaces for dialogue and shaping operating consensuses. To achieve these objectives, Agenda: PERU's methodological approach articulated three components: comprehensive research, consultations with citizens and experts, and activities to disseminate the findings.

The objective of comprehensive research is to prepare working documents, reports and technical notes that form the basis for promoting debate and discussion and that eventually turn into articles, books and other dissemination texts. Beginning with a review of the literature, information, statistical data, ideas and proposals are collected and vacancies identified that must be filled with complementary studies. In parallel, conceptual schemes are outlined to systematize the collected material and organize the consultative process. These schemes are continually reviewed to incorporate the contributions, comments and suggestions arising from the interviews, meetings, seminars, workshops, public presentations and literature tracking, so that the structure and content of the texts evolve continually while the project develops. The preparation of reports derived from comprehensive research is in the charge of all the members of the working team, but at the end the written material must be reviewed by a small group and by the study coordinator in order to produce a consistent text.

The objective of consultations with experts and citizens is to progressively prepare a group of proposals that collect the points of view, not just of specialists on a particular topic, but also of the people affected by the policies and decisions associated with the topic under discussion. In the first place, the consultations with experts—done through in-depth interviews, workshops and specialized seminars—complement, adjust and refine the results of the comprehensive research. In meetings with groups of specialists the preliminary results obtained by the working group are presented and submitted to discussion and revision. In the second place, to back up the findings and ideas found by comprehensive research and in consultations with experts, consultations with ordinary citizens are organized. For this purpose we use focus groups, “search conferences,” discussion seminars and opinion polls, making it possible to collect the ordinary citizens' points of view. In this way we can make diagnoses and proposals that go beyond academic research and that approach a general consensus between experts and citizens.

The objective of dissemination activities is to place the results of the work at the disposition of all those interested and the population in general. The major channels for dissemination are the written media (journalist articles, academic publications, interviews, books, supplements), electronic media (radio, television, Internet) and presentations at events with diverse audiences. The personal presentations by members of the Agenda: PERU team and the use of electronic media—especially open band radio and Internet—make it possible to interact with the audience, and thus gather reactions and points of view that help to improve the content of texts and dissemination of results. Moreover, the material and the presentation aids showing results of the work are made available to other people interested in disseminating the results of Agenda: PERU's work.


exercise of power and authority in the different spheres of national life.

The present report has tried to reflect the operating consensuses that arose during the course of the studies, consultations and dissemination exercises carried out by Agenda: PERU. This necessarily implies steering a middle course between very general proposals and those that define specific details. This document proposes what could be called a "general program", but it does not reach the level of detail of a "government plan." That is a task for the political parties and movements.

DEVELOPMENT STRATEGY AND ACCEPTANCE BY CITIZENS

Apart from demonstrating intellectual rigor and internal consistency, a development strategy should be acceptable to the majority of citizens, and its proposals should be in line with the feeling of the population. While preparing the present report, the results of consultations with experts and citizens has been kept in mind at every turn. The reports on focus group meetings and opinion polls done by IMASEN (a specialist opinion survey company) were turned to over and over again, as were the notes and summaries of interventions in the events in which
the Agenda: PERU team participated. Thus, the successive versions of the current report were continually enriched with the results of the consultative processes (Box 9.2).

Some examples illustrate the way in which citizen opinions introduced changes in the content of the present report. The issue of racism received preferential attention in the meetings with experts on social topics, but it did not arise spontaneously in low-income focus groups. For the latter, inequalities in access to quality education, the possibility of obtaining a job and income levels were more important issues than those related to racial features. Even though racial discrimination is intimately linked to these factors, it is not the starting point used by the majority of citizens to examine their own circumstances and the inequalities that affect them. For this reason, the present report does not put so much emphasis on the topic of racism as some experts suggested; rather it deals with it as part of the measures to reduce inequalities (Chapter 4) and to affirm a pluralistic sense of national identity (Chapter 8).

The role of the state was another topic on which some divergence among experts was noticeable, and particularly between them and citizens in general, and notably in the provinces. The viewpoint of some experts consulted in interviews, workshops and seminars was that it was necessary to reduce the role of the state as much as possible, while others proposed that greater space should be left for state action. By contrast, a large proportion of experts and citizens with whom the Agenda: PERU team talked in the interior demanded a much more active state presence, and some suggested the need to create state-owned companies again. The present report tries to reflect a balanced perspective about the role of the Peruvian state at the beginning of the 21st century (Chapter 7), by seeking to align the demands presented by globalization to Peru's economy with what we have learned about policies to maintain stability and economic growth, with the active role the state should play, not just to reduce social inequalities and protect the environment, but also to make the market economy function efficiently and in favor of Peru's majority.

Moreover, articulating a vision of the future for Peru (Chapter 1) was markedly enriched throughout the consultative process. The initial contents emerged from a series of 80 in-depth interviews in various parts of the country, and they were complemented with the results from the focus groups and opinion polls. The consultations reflected the difficulties faced by the majority of Peruvians in thinking systematically about the future and, at the same time, their great interest in having a shared vision able to mobilize energies and wills.

When one asks Peruvians what they want for the future, the responses are heavily conditioned by the privations of the present; they give the impression that the deep crisis impedes dreaming and giving free rein to the imagination. The responses also suggest that the opaque images of a better future are due not just to the communication problems typical of a scarcely integrated country, but also to the great difficulty the majority of Peruvians face to look beyond the privations that deeply affect their daily lives.

In the poll carried out in August 1999, there was both an open question and a multiple choice answer, about how the interviewees would like Peru to be within a decade or so. The great majority of responses concentrated on the topic of jobs and the economy: 36.2% of the national sample said it wished for a Peru "with less unemployment," and 32.5%, one with "more development." In a distant third place there was "a country without violence" (8.8%). This marked slant is due, in the first place, to the long period of economic adjustment that Peru experienced during the 1990s and to the worsening employment problem in a context that was already one of forced austerity. Secondly, it is due to the fact that unemployment takes over one's entire personal life, making it very precarious and uncertain. The focus groups showed that employment is valued not just for the income it produces but also because it provides self-esteem, future possibilities, professional projection and personal liberty. In today's Peru, the way in which a large majority of Peruvians imagines a process of economic growth with equity is by creating jobs and having greater access to employment.

Perhaps this helps explain, at least in part, the discrepancy when the question was not asked openly, but instead by offering the interviewees the chance to choose from among four responses: a country with equal opportunities for all, a modern and developed country, a secure country with peace and understanding among all, and a democratic country. Of the national sample 47.4% opted for the first response ("equal opportunities") and 28.5% for the second ("modern and developed"). Those who had responded "less unemployment" or "more development" to the question were in favor of these two possibilities. This tells us that – in a context marked by the economic crisis and inequality – the problems of employment and equality converge in the popular imagination.
Some conclusions from the opinion polls carried out by Agenda: PERU

From the time the Agenda: PERU project began work, it used qualitative and quantitative research, in the attempt to establish an ongoing dialogue between its proposals and the citizenry's perceptions and demands. The development strategy proposed by Agenda: PERU is not to simply reproduce the common feeling; rather, it has been enriched with proposals from society. Moreover, it has gained in realism by recognizing and keeping in mind the dreams and expectations of those who, in the final analysis, are those in charge of putting them in motion and who benefit from or are affected by their results and consequences.

The series of studies carried out between 1994 and 1999—that included more than a dozen meetings with focus groups and three opinion polls (metropolitan Lima, rest of the country and nationwide)—were exploratory in nature. However, they make it possible to outline some related hypotheses that help to better understand the findings on some specific topics. Here is a brief summary of the major, general results:

- Everything indicates that globalization is part of the daily plans of most people. One can say that Peruvians live in a world open to commercial and cultural interchange, from which they explain their present and imagine their personal and collective future. The idea of modernization, technology or computerization was shown to be very present (whether in reality or myth) and is increasingly "popular," although its force may be still be much less in urban and rural groups living in extreme poverty.

- The link with globalization is not exempt from contradictions. To know oneself to be part of a world in continual change and modernization and with consumption norms that are becoming internationally standardized reminds one at every step of the enormous privations and inequalities that are confronted in daily life. One of the most outstanding conclusions of the studies performed is the extensive awareness of inequality among Peruvians, which is attributed to differences in education, income or social position. This perception of living in a very unequal society affects practically every sphere of daily life, from individual opportunities for progress to interpersonal treatment marked by discrimination and social or racial devaluation.

- Social researchers have always been surprised by the invincible optimism Peruvians feel about their possibilities to advance socially and develop individually.

Studies carried out by Agenda: PERU confirmed this special characteristic of our population: there is no adversity impossible to overcome if one has recourse to effort and personal decision, that seem to be objectively unlimited. In general, the political crisis and distance from public decisions cause personal expectations to concentrate on one's own possibilities of individual progress. Emphasis is placed on what is under one's own control, even though that means falling back on private life and a more immediate social environment. Hopes are deposited in the effort and education one can achieve, whether in the present or the future represented by children. One might argue that this individualistic attitude leads to distance from the public scenario, but at the same time it constitutes a defense mechanism that expresses a strong desire for self-affirmation and that generates resources to resist the crisis, economic precariousness and frustrated expectations.

- We live in an age of change in cultural paradigms in which the great socially accepted truths have ceased to be such; it is a time of cognitive crisis in which defining oneself is not easy. Everything becomes debatable, and the signs that indicate what is good or desirable are opaque. Direct and indirect experiences of daily life are transformed into the basis of collective development of reality, relegating elements of a conceptual nature to second place. Not understanding it thus means that ideological triumphs are sometimes imagined where, in fact, only attitudes and behaviors exist that are governed by practical criteria and by a commonsense that at times may seem inconsistent. For example, acceptance of the central role played by the market in an economy can co-exist with the demand for a more active, interventionist state, while privatizations can simultaneously generate broad discontent and a recognition that they contribute needed capital and technology for the country's development.

If one seeks a general conclusion, we dare to suggest that the qualitative and quantitative studies of opinion performed by Agenda: PERU do not show a lifeless, deserted country, but one in full socio-cultural change and in a difficult process of creating new elites. This is the result of the huge transformations that have been occurring in Peru and the world during recent decades. The aspirations to be more democratic, egalitarian and modern that are present in people's illusions and desires are a good point of departure for responding to the challenges and taking advantage of the opportunities that this represents.

Citizen attitudes and development policies

The strategic directions developed by the present report in Chapters 3 and 6 arose at the beginning and during the consultative process, but they took on their final form once the polls and focus groups were finished. For this reason there were no questions specifically aimed at scrutinizing citizen opinion about each and every one of the policies sketched out in the strategic directions. Moreover, in opinion polls and focus groups it is not possible to ask direct questions about some technical and specialized topics (for example, monetary policy). However, the quantitative and qualitative studies generated a large quantity of information that, carefully interpreted and analyzed, nourished the preparation of this report. By way of illustration, it is possible to give some examples of the way in which citizens perceive the policies associated with the strategic directions.

The long economic adjustment

To live in today’s Peru is not an easy matter given the precariousness, lack of work and the privations of every kind. As indicated previously, the issue of employment appeared as the major citizen demand in national polls carried out in 1994 and 1999. When the first poll was done, the demand for employment emerged in the context of economic growth, that encouraged hopes of seeing soon the fruits of an adjustment that was felt to be necessary and inevitable. But this economic reactivation was fleeting and the situation grew worse during the second half of 1998; the entire decade of the 1990s ended up being a prolonged phase of adjustment and waiting.

The long adjustment process ended in a questioning of the received wisdom that, during the first years of the 1990s, explained and justified the poor personal and family economic situation as a sacrifice that was producing an economic improvement for the country. Box 9.1 compares the perceptions of the “current” situation in November 1997 and in August 1999, and that which existed before 1990 in metropolitan Lima. It shows the marked decline of perceptions about the economic situation in just two years.

This long period of adjustment conditions the way Peruvians explain the present and develop expectations for the future. The experience of an interminable adjustment distorts the sense of time and it postpones the future over and over again: “For me, at least, this crisis is frightening. I don’t want to project or to think,” said a woman participant in a focus group of upper low income inhabitants of metropolitan Lima. Even more, this situation of economic crisis is the only one that large segments of the population have experienced, particularly young people and those under the age of 30.

At the end of 1998 and in the first half of 1999 when focus group meetings were held with popular groups in Lima, Huancayo and Chiclayo, it was easy to encounter expressions such as “I was born in crisis, I live in crisis, I’ll die in crisis, and my children will live in crisis.” Economic precariousness and instability affect everyone: those who have a job know they may lose it from one day to the next; those who do not have a stable job and work in independent trades face a market that is ever smaller and poorer. In the focus groups carried out with lower income segments of the population it was difficult to converse about perspectives for the future because Peruvians live permanently in an anguished, demanding present. However, it is surprising to realize that, despite this difficult situation, the sense of effort and individual transcendence does not decline. The desire to progress at all cost and attitudes of continual battle in the face of adversity, tainted with a sentiment of rebellion and invincibility, were demonstrated over and over again in these groups.

Awareness of the crisis, which is accompanied in older people by rejection of the hyperinflation and instability at the end of the 1980s, has generated strong support for measures to maintain economic stability and a demand for active policies to develop some sectors perceived as job creators (agriculture, industry, construction). There is also a call for a shared vision of the future to help reduce un-

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<th>TABLE 9.1</th>
<th>Citizens’ perception of the economic situation</th>
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<tr>
<td>Comparing the current situation with that which existed before 1990, would you say that the country’s economic situation now, or that of most Peruvians, is better, the same or worse than before?</td>
<td></td>
</tr>
<tr>
<td>Of the country</td>
<td>Of the majority of Peruvians</td>
</tr>
<tr>
<td>November 1997</td>
<td>August 1999</td>
</tr>
<tr>
<td>Better</td>
<td>51.0</td>
</tr>
<tr>
<td>Same</td>
<td>19.9</td>
</tr>
<tr>
<td>Worse</td>
<td>27.7</td>
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<tr>
<td>No response</td>
<td>1.5</td>
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Note: The 1997 data comes from a poll done by IMASEN for the consortium “Propuesta Ciudadana” (Citizen Proposal)
certainty, one that the majority of Peruvians do not feel capable of articulating, however.

Legitimate and illegitimate inequalities

The tensions provoked by the precariousness and uncertainty of daily life has created an awareness that Peru is a country that suffers from many kinds of social exclusion. For example, one of the participants in the focus groups carried out in metropolitan Lima related that he had been commissioned to knock down the wall of a home in Miraflores only to build another alongside; his comment mixed surprise and frustration: "and as a workman one sees, sees that wall, knocks it down and says 'how I would like to have in my house that wall that I'm knocking down.'"

It is not just a matter of observing on a daily basis economic inequalities; these can sometimes be explained. Rather, it is a perception that goes beyond material things and judges the unequal way in which social stature, individual opportunities and rights are distributed. In the 1994 poll the question was asked "Would you say that in Peru all people are treated as equals?" The answers showed a consensus among interviewees: 89.5% answered negatively in metropolitan Lima and 87.4% said the same in the interior. The spaces where inequality exists comprise the economic dimension, interpersonal relationships, ethnic and racial affiliation, access to the law and justice, educational opportunities, access to health services, among others. These inequalities become more visible, and possibly intolerable, when they collapse and distort the most elemental patterns of social integration, such as the recognition of people's merits and abilities. In the national poll of 1999, people were asked who found work most easily right now: those with influence, the best educated or those with the best physical appearance; 63.9% of interviewees responded "those who have influence." This underscores the importance of policies aimed at reducing inequalities, promoting mutual respect among all Peruvians and recognizing the other as an equal. At the same time, it puts emphasis on the need to reward good performance, ability and personal effort.

Some of the most important features of the modernization process that Peru has experienced in recent decades – associated with the big migratory displacements from the countryside to the city – has been a consciousness-raising about the importance of equality and the perception that all people should have the same rights – simply because of their condition as human beings and citizens. With this consciousness raising and perception one must judge whether the existing social inequalities violate this fundamental principle of equality of rights and are, therefore, illegitimate; or whether the inequalities are the product of people's behavior and can be understood as legitimate and acceptable. For example, when discussing the subject of income equality many focus groups said that wage and salary equality could harm the country's and people's development since effort, education and individual ability would not be rewarded. As one participant said: "If everyone earns the same, people won't excel."

There is a fundamental demand for equality that orders the way in which differences are perceived. Even if the privations of the present can be explained and understood (need for economic adjustment, importance of rewarding effort), the thing does not apply when inequalities are perceived as institutionalized and they recur continually. Peruvian desires for equality have grown away from the sort of egalitarian distribution sought in the 1960s and 1970s; now, perhaps, they would respond to a more individualized vision of social life. Equality should not limit but empower each individual. Even if it corresponds to the state to ensure the equality of opportunities, it depends on the individual depends whether he or she takes advantage of it or not.

This could be seen in both the qualitative and qualitative studies when dealing with the topics of the struggle against poverty and priorities for social programs. Generally, not only is it thought that the best way to combat poverty is by creating jobs, but a criticism appears – at times constrained and not always fluidly expressed – against the welfare programs incapable of promoting family self-esteem and people's autonomy. Even though the help received by the state and civil organizations is valued – it now forms an integral part of the family budget – one senses a strong demand for programs that help people help themselves and that would integrate beneficiaries into the production system. Moreover, among low-income individuals who participated in the focus group meetings, some were worried that assistance programs could create dependency, a lack of concern and the abandonment of personal effort to progress.

People are also in favor of clearly defined priorities in social programs, in terms of content as well as the groups to which the programs should be aimed. Food, health and education, in that order, were considered priorities because, as one participant in a focus group said: "Food is what gives health, and both are what make learning and education possible." Box 9.2 summarizes the responses to the national poll in 1999 about the groups that should receive support form social programs. The emphasis is
on children and extremely poor families, which suggests the importance of focusing social support programs on these segments of the society. Chapter 4 of the current report responds to these concerns and preferences, by articulating a group of proposals for the strategic direction on equity, integration and social justice centered on the provision of basic social services, the battle against extreme poverty and job creation.

**Ecology and computers**

The term "ecology" has been popularized in recent times and increasingly it is associated, with no great difficulty, with environmental protection and the care of nature. But, even though the topic certainly awakens sympathy among focus group participants and among interviewees in the polls, the impression their answers leave is that this concern is still fairly vague and ambiguous and that it still has not been stimulated sufficiently or developed through environmental policies and programs.

Despite the general expressions of interest in protecting the environment, it can be seen there is still a very limited ecological culture and a lack of concern for the impact of human activities on the biophysical surroundings. Even though it was possible to detect interest in the issue of pollution, protection for green areas and public cleanliness, the focus group participants confess that, for them or for the people they know, protecting the environment is not a priority nor is it manifested in their daily behavior. Sustainable use of natural resources to benefit future generations does not figure importantly in the popular imagination. When the topic is touched upon in the focus groups the idea that natural resources are not used to good advantage comes up immediately. However, in places closely linked to agricultural development (for example, Huancayo) the ecology issue arose with greater clarity both in the focus group meetings and in interviews and presentations by team members.

In general, one can infer that protecting the environment features as a socially accepted concern, but still only at the level of discussion and not in practice. This makes it possible to interpret some results of the 1999 national poll in which 88.6% of interviewees maintained that care of the environment "is always important," irrespective of whether a country is developed or not. But when the question was asked "Do you think of yourself as someone who is very, averagely, hardly or in no way concerned with the subject of ecology?" 52.3% said "very," 34.8% "averagely" and the rest hardly or in no way. Thus, it is necessary to place emphasis on changing attitudes and in designing policies to encourage responsible behavior toward the environment and the sustainable use of natural resources (Chapter 5).

Low-income groups approach matters linked to science and technology by talking about computers. In focus group meetings in metropolitan Lima and in the country's interior access to computers appeared frequently and spontaneously when there was talk of modernizing Peru. In some cases, this was the product of participants' direct experience with computers, but often the comments began with the proof that many services (trade, banks) are faster when receipts and bills are processed using computers.

This attitude has been reinforced by the growing interest of many young people to register in computer academies and to study systems engineering. Expressions such as "this is the career of the future" appeared rapidly and produced consensus among focus group participants. Certainly there were also expressions of concern and unrest - in some cases people said "machines and computers can substitute for workers" - but the predominant feeling associated computers with the concept of progress and technological advance, which was considered positive.

Of those interviewed in August 1999, 34.5% said they had used computers at least once, even though only 6.8% said they had done it in their home (in metropolitan Lima that percentage reached 13.6%). It is interesting to see the breakdown by age: those who had used the computer most were clearly young people, but they were the ones who were able to use it least in their own home (Box 9.3). Moreover, 60%

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<tr>
<td><strong>Social programs and beneficiaries</strong></td>
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<tr>
<td><strong>Of the following groups, which should be given help with food and social programs?</strong></td>
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<tr>
<td></td>
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<tr>
<td>Times mentioned</td>
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<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Children</td>
</tr>
<tr>
<td>Families in extreme poverty</td>
</tr>
<tr>
<td>All poor families</td>
</tr>
<tr>
<td>Elderly</td>
</tr>
<tr>
<td>Handicapped</td>
</tr>
<tr>
<td>Pregnant women</td>
</tr>
<tr>
<td>Does not respond</td>
</tr>
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</table>

Source: IMASEN reports for Agenda: PERU
said that access to the computer was personally very important, whereas an even larger majority, 84.4%, sustained that access to the computer was very important for school education.

In general terms, one could see a positive value placed on science and technology in the focus groups and also during the presentations by team members of Agenda: PERU in various events in metropolitan Lima and the provinces. Mention of the country’s critical situation in this regard provoked many comments and reactions as well as suggestions that the issue of technological development be urgently addressed (Chapter 5).

Decentralization is an aspiration shared by the majority of Peruvians: 69% of those interviewed in the 1999 national poll said it was indispensable to develop the departments in the interior. However, this aspiration is also shared by Lima’s population, with 75.7% of interviewees responding similarly. These results indicate that there is a perception that noone, not even in Lima, benefits from the exaggerated “centralism” which currently exists. However, it is interesting to note that this consensus is considerably broader in urban areas than in rural ones: 76% in urban areas said they agreed that decentralization is indispensable; only 52% in rural areas agreed.

There are significant differences in the way in which the concept of “decentralization” is understood. When interviewees were asked about the measures they had in mind when talking about decentralization, the range of responses was very great, and the percentage that did not know how to define them reached 45.8% (Box 9.4). The most frequent response was “to create more sources of employment in each department” (8.9%). However, the majority of people that responded this way were in Lima (21.6%) versus an average of 4% outside Lima; or in urban areas (11.5%) versus rural areas (3.1%). Answers in the interior focused mainly on “developing the provinces,” “creating independent regions” and on the answer “each department should manage its own resources.”

Answers to the question whether they would prefer the government to invest directly in the provinces or transfer resources to localities in the interior where they could be administered, people were very divided. A 46.5% of respondents favored the transfer of resources, but 35.2% preferred direct investment by the central government. In rural areas the percentage of people that did not respond was fairly high (30% versus 14% in urban areas), but it is notable that urban dwellers more frequently preferred the first option – 51% of those interviewed in urban areas agreed that the provinces should administer their own resources, whereas in the rural area this percentage was 37%. This result shows clearly that decentralization also has to do with generating local capacity to administer the resources; this is associated with the perception that there are more opportunities for corruption in the local sphere than in central government. The most frequent reason for preferring local control of resources (49% of interviewees) is that local governments know better what the regional problems are.

To see how people perceived transportation and communication facilities the interviewees were asked if transporting products to the interior of their department was easy or difficult. The responses were very divided: 44.9% said that it was very easy and 46.8% said the opposite. This percentage grows upon comparing access of rural and urban areas: 57.9% of people who responded that access was difficult came from rural areas. When asked about difficulties involved with moving products from their department to another department, 52% of interviewees said it was difficult (in the case of those interviewed in rural areas this percentage rose to 61%), whereas 37% believed it to be easy. Of those interviewed in the eastern part of Peru, 72% responded that it was very difficult to move products interdepartmentally and evinced the strong sense of isolation that inhabitants of this part of the country feel.

Despite the fact that a broad consensus exists about the priority that should be given to decentralization, it appears that consensus over how to put it into practice has yet not been reached. It is possible to see a generalized interest in occupying better our vast and difficult terrain, but there seems to be confusion about how to do it. Thus, it is necessary to develop a series of policies on decentralization (Chapter 7) and settling the country (Chapter 6)
that can be transmitted to all citizens and generate operating consensuses.

Democracy, institutions and identity

The concern for democracy has been one of the central issues in Agenda: PERU’s work. The present report has underscored in various opportunities that it is impossible to progress toward prosperity and wellbeing without consolidating democratic governance, and this requires reforming state institutions, the private sector, civil society and those in charge of security (Chapter 7). It is very important to understand what democracy means to the majority of Peruvians in order to be able to design these reforms. This subject received preferential attention in the consultations with experts and citizens carried out in the first years of Agenda: PERU’s work (See: Democracy and good government, Lima, Editorial Apoyo/Agenda; PERU, 1995, third edition published in 1999, and in English by Peru Monitor, 2001).

Even though the notion of democracy is widely accepted by the population, its meaning is interpreted in very different ways. One clear, surprising example were the reactions produced by President Alberto Fujimori’s self-coup on April 5, 1992, which was justified in the name of saving democracy. Even two years later, a poll done in metropolitan Lima showed that 36.1% of interviewees thought that there was more democracy after the self-coup than before, 30.7% said there was as much as before, and only 27.2% seemed to censure the institutional rupture, saying there was less democracy after the coup.

Democratic practices and habits are built via many processes and experiences that often appear inconsistent and even contradictory. This makes different social groups perceive democracy in different ways. However, the results of focus groups and opinion polls seem to indicate that during recent years the space occupied by the idea of democracy in the popular imagination is being defined more clearly. Periodic elections, freedom of expression, citizen participation and respect for human rights make up the central nucleus of perceptions about what democracy is. In some cases a notion about democracy appears that could be called “utilitarian,” focused almost exclusively on access by the low income population to social programs and the construction of small public works in the poorest areas of the country. This concept of democracy was insistently advocated by the government during the 1990s; paradoxically, it was used to justify authoritarian government, centralism and the concentration of power.

As part of the November 1994 poll in the country’s interior, interviewees were asked about the principal characteristic of democracy. Of those asked, 21.2% abstained from answering, which is significant in and of itself, while 37.9% mentioned the right to vote and freedom of expression. When a second question offered multiple choice answers, the leading response (34.2%) was “that there be elections.” Other choices (for example, the existence of strong political parties or the division of powers) were largely ignored or were not generally accepted. It would seem that the majority of Peruvians has a voting concept of democracy in which elections would serve mainly to designate the president who would be left free to exercise power as he or she wants. The government’s legitimacy would not be linked so much to respect

<table>
<thead>
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<th>TABLE 9.4</th>
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<tr>
<td><strong>Meaning of decentralization (by region and area)</strong></td>
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<tr>
<td><strong>Region</strong></td>
</tr>
<tr>
<td>Creation of more sources for jobs</td>
</tr>
<tr>
<td>Provincial development</td>
</tr>
<tr>
<td>Creation of independent regions</td>
</tr>
<tr>
<td>Each department manages own resources</td>
</tr>
<tr>
<td>More investment in provinces</td>
</tr>
<tr>
<td>Other*</td>
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<tr>
<td>No response</td>
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* Distribution of powers, that is not concentrated in a single department, the country’s general development, giving equality to provinces, help for the countryside, economic support, give more authority and opportunity to municipalities, help industries, among others.

Source: IMASEN reports for Agenda: PERU
for rules of the democratic game and smooth functioning of institutions as with the results of the presidential election.

During the decade of the 1990s it was possible to note a high degree of identification between the low-income population with the figure of the President, to such a point that precarious and economic difficulties were attributed to factors beyond his control. Paraphrasing the answers of participants in several focus groups between 1994 and 1999, a typical answer would be: "President Fujimori is like me. I wouldn't harm myself; therefore, if the President is like me, he won't do things to harm me." Despite this, some participants maintain that this sense of identification was still present in a significant part of the population during the 1990s, tinged in some cases by the perception that the sacrifices would bear fruit at some point, and in other cases by the idea—paraphrasing again—that "a President who is like me cannot solve my problems, nobody can."

Some participants in the 1999 focus groups compared the President to the dedicated, worried father of a family who looks out for the home and his children. This led to asking the following question several months later in an opinion poll: "For Peru to be the way you want, is it enough to have a good presidential leader?" Of those interviewed, 71.4% responded in the affirmative, 24.2% said it was not, and 4.4% abstained from answering. This reinforces the idea that the President is the principal depositary of expectations for a better life. For their part, those who said "no" mostly indicated that for the desired Peru to come about, it was necessary to encourage solidarity, and working together and to have a greater awareness of nationhood.

However, answers by focus group participants also indicated a willingness to assume commitments with the country's development, a preference for decisions based on democratic consultation, a favorable predisposition toward reaching agreement and working together, consensus on the importance of respecting human rights and a perception that democracy is related to economic development. The challenge consists in articulating these views, many of them embryonic, and changing them into a new common feeling about the democratic exercise of power and authority at every level.

To respond to this challenge it is necessary to put into practice a series of institutional reforms, particularly of the State, and in civil society and security institutions (Chapter 7). Moreover, democratic values should be encouraged through education, the mass media and the exercise of leadership (Chapter 8), even though one of the obstacles that must be overcome to reaffirm values associated with democracy is the low level of self-esteem among the majority of low-income Peruvians.

The need for major change and the conditions to make it happen

At first sight, one of the major findings of the qualitative and quantitative studies may seem contradictory. In a country with so many inequalities, latent conflicts and accumulated misunderstandings, where opportunities have been lost over and over again, the prevailing sense is that important changes are needed—but at the same time there is a desire for prudence and gradual change in defining the kind of change and the timeframe.

Of those polled nationally in 1999, 72.1% said that Peru needed "major changes," only 21.9% said it needed "small changes," and scarcely 2.5% maintained that things were fine and nothing needed to be changed. These results are not surprising given the crisis situation that the majority of Peruvians is living. But what happened when those who favored "big changes" were asked if these should be radical or done slowly? More than three quarters (77.1%) opted for gradual change, which makes possible a different reading from the answers to the preceding question.

A large majority of all interviewees either responded that "small changes" were necessary (21.9%) or they want a big change, but it should be gradual (55.6%). Together, both answers represent 77.5% of all people interviewed. While a major change is desired, people want it to happen slowly; this would provide a minimum of security and certainty.

The caution noticeable in these answers may be associated with the view that it has not yet been possible to unite efforts and that each government tries to discard what previous governments did and begin from zero: this is known popularly as the "pendulum" in the nation's political life. However, this is not the only explanation, and the results of focus groups suggest additional reasons. For example, there continues to be high value placed on the price of the stability achieved after the hyperinflation that Alan Garcia's government left behind. When participants are asked if they would agree with an employment policy that means a bit more inflation, the response was negative in the main. At the end of the 1990s, the fear of instability and economic uncertainty still linger, even more when one is poor. A "bit more inflation" sounds threatening and may signify a crucial difference for straitened family budgets. Nor should
one forget that the long adjustment period has been a sacrifice for all households, and particularly for the most humble. Therefore, prudence can be viewed as a way to avoid running too many risks and as a means of assuring oneself of the fruits of efforts made under very difficult, precarious conditions.

More sacrifice?

The simultaneous demand for change and continuity indicates that the results of a huge joint effort could eventually compensate the years of sacrifice and privations. This leads to the following question: what is the possibility of proposing long-term goals and calling for efforts that, when defining priorities for the use of resources, could prolong the sacrifices that are already extreme in some cases? This has to do not just with the development proposal’s social sensibility but also with reality and feasibility.

This issue was presented to the focus groups in which low-income groups from metropolitan Lima participated at the end of 1998. The conversations took a somewhat surprising turn. The idea of accepting more privations – in terms of clearly defined and widely shared objectives – was accepted by the large majority of participants, even though a more favorable disposition was noticeable in the groups of women than in those of men. This may be because many of the women were mothers accustomed to sacrificing themselves for their children, whom they see as the beneficiaries of the better future under discussion. The men’s greater reluctance to accept additional sacrifices might be because they reason in terms of immediate demands associated mainly with the responsibility for maintaining the household. However, in both groups the willingness to continue experiencing privations was apparent, provided that a better future would come as the result of their sacrifice.

BOX 9.3

Peruvians’ self-image and self-esteem

Promoting democratic values requires a positive perception of one’s self-image and a reasonable level of self-esteem. Otherwise it is very likely that a sense of insecurity and undervaluing of one’s own skills will impede recognizing the other as an equal and recognizing one’s self as the equal of others. Self-esteem is a necessary condition to establish relationships of mutual respect and appreciation, indispensable for democratic practices and habits as well as for reaffirming a sense of identity.

For this reason, the focus group meetings and polls carried out in 1999 put emphasis on the way in which we Peruvians see ourselves. In the focus groups a test of projection was used. Participants were asked to associate the image of Peruvians to some animal and to explain the associations they made. What caught our attention was that the focus groups done in metropolitan Lima as well as those in the interior coincided in making associations with a heavy charge of negativity and dejection. Among the most frequent associations were those made with the donkey or domestic dog, characterized by excessive, denigrating work, for being docile and blindly obedient, and for the inability to rebel against what is imposed on them. Perhaps this helps explain how, in this context, the participants found it difficult to answer the question about whether we Peruvians were once different: memories or myths based on collective achievements which might mobilize Peruvians did not appear to exist. Only once a woman broke the silence of the meeting to say: “terrorism, for example, defeated us all.”

When the question was asked in the August 1999 national poll “if you had to define Peruvians in a few words, what would you say?,” the results confirmed these findings. In a multiple choice answer, the first mention was “conformists” (24.0%), followed by “hardworking” (15.9%), “lazy” (13.1%), “egotists” (6.8%), “nice people” (5.3%) and the adjective “slovenly” (4.0%). However, it is impossible to believe that these results are incontrovertible and to draw from them hasty conclusions about Peruvian attitudes and self-esteem. The associations made in the focus groups also carry a charge of negativity and censure for these kinds of behavior: the participants established, sometimes in a rather buried way, that we do not have to be that way and we can be different. Moreover, attitudes of collective affirmation, attempts to take control over the present and the desire to forge a better future are valued positively. The havoc produced by the prolonged economic crisis, precariousness and institutional decline on the sense of self-esteem can and should be countered via the affirmation of a sense of national identity, by giving new value to the dignity of people and the promotion of democratic values and attitudes.

These arguments and reactions were confirmed in the 1999 national poll, even though not in the rich detail that is possible to collect from focus groups. When asked "If it was absolutely necessary, for Peru to progress, that we Peruvians make sacrifices for a while longer, would you accept?," 67.3% answered affirmatively, 27.4% said "no" and 5.3% did not respond. Two kinds of considerations may converge in this attitude. On the one hand, the full awareness of finding ourselves in a crisis situation makes it impossible to expect improvements in the short term. On the other hand, conversations with focus groups and the question asked gave sense to the sacrifice, linking it with a shared vision of the future and with the objective of overcoming the privations that most Peruvians live daily. Without this condition, the responses might have been different.

PRIORITIES AND LEADERSHIP TO PUT THE STRATEGY INTO PRACTICE

Apart from citizens' acceptance, moving a development strategy from design to action demands a clear definition of priorities and effective leadership, capable of mobilizing support and generating consensus. It is not just a matter of achieving agreement on the objectives and guidelines but also on specific measures so that Peru can achieve a better "insertion" into the world (Chapter 2), progress on all the strategic directions (Chapters 3 to 6), carry out institutional reforms (Chapter 7) and reaffirm its sense of national identity, as well as promoting the adoption of values consistent with the development strategy (Chapter 8).

Priorities and sequences

Defining priorities and a sequence for the various activities embraced by the strategy is a necessary condition if financial, human and material resources are to be effectively assigned and attention focussed on those who define policies and make decisions. However, this is not the purpose of this report. Agenda: PERU is not a political party or movement; it is not our task to define what should be done in a particular government period. Rather, it is to propose a framework for strategic decisions and the reform of public, private, civil society and security institutions.

There is a broad range of criteria to define priorities and to identify, rationally and reasonably, the activities that should be undertaken in the short term, that should receive preferential attention and those to which resources should be assigned. As a first approach, it is possible to identify three criteria.

In the first place, there are those policies and activities that are fundamental for the development process, but which take a long time to carry out in an orderly and effective way. In this case, it is necessary to begin as soon as possible, basing efforts on a consensus between the different political forces to ensure that continuity is maintained throughout successive governments. Reforming education (Chapter 4 and Box 4.6) – that requires at least some 13 years to do in an orderly and durable way – is an example of policies and activities in this category. Similarly, the measures to reaffirm a sense of comprehensive, pluralistic and continually-unfolding national identity (Chapter 8) should continue for a whole generation and begin as soon as possible.

In the second place, in the various strategic directions and institutional reforms lie those measures that are a pre-requisite for the implementation of other policies and activities. Among these are policies to maintain macroeconomic stability and those to restructure the financial system. If inflation is not kept within bounds and if the financial system is unable to intermediate resources efficiently, it will not be possible to move forward with sector development policies or social policies, or even to count on having the fiscal resources to begin institutional reforms in the state.

Thirdly, there are those policies and activities that multiply options and open up new possibilities for other development policies. Among these are the design of a policy to "insert" Peru internationally, one that matches the features of a fractured global order and the installation of a vast, dense telecommunications network. In the first case, the idea is to open up spaces for economic development by means of an appropriate appreciation of the opportunities offered by the new international context, and in the second, to create a modern infrastructure to take advantage of the opportunities offered by the information and knowledge-based society.

Lastly, there are measures and policies that qualify according to two or more of these criteria, although possibly not with the same intensity in each. For example, reforming the judiciary is a long-term task; it is a pre-requisite for designing and implementing the social policies proposed in Chapter 4 of this report, and it opens up a range of development possibilities in other strategic directions (territorial organization, for example). Likewise, a shared vision of the future is a prior condition to project an image of the country abroad, to mobilize energies and efforts, and to open up new possibilities that may have escaped the attention of certain groups within Peruvian society.
On the basis of these and other criteria it is possible to define, with timeframes that may vary between a few months and five years, a series of specific measures that constitute the elements of a government plan. However, as in every strategic planning exercise, a government plan should be adaptable to the changing circumstances that the country faces; this implies continually reviewing priorities, redefining the sequences of activities and modifying how resources are assigned.

However, there is an additional group of prerequisites that is fundamentally important for putting a development strategy into practice. The political crisis that Peru is experiencing at the start of the 21st century has made it evident that recovering and consolidating democratic institutions is an essential condition to advance through the strategic directions and institutional reforms contained in this report. In this sense, the list of measures proposed by the mission of the Organization of American States (OAS) for promoting the democratization process should be considered an indispensable minimum to ensure the viability of a transition toward a new government capable of putting a development strategy into practice (Box 9.4).

**Leadership, leaders and a development strategy**

The leaders in every sphere of national life, and particularly those who hold public posts, condition behavior of society as a whole. Therefore, it is important that those who exercise power and authority in the highest levels of government comport themselves in a democratic manner and show they are up

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**Elements of the democratization program proposed by the OAS Commission**

**Reform of the justice administration, strengthening the rule of law and the separation of powers**

A. Independence of the Judicial Branch

1. Assure independence for Judicial Branch.
2. Dissolve Executive Commissions created to reform the Judicial Branch, according to Law 27009 and restore organic laws of the Judicial Branch and Public Ministry.
4. Reform the system of military justice.
5. To assure constitutionality of legislation (options)
   - Reestablish the Constitutional Tribunal by reinstating the three magistrates removed by Congress from their posts.
   - Select new judges for the Constitutional Tribunal, based on consensus in Congress of all parties represented.

B. Balance between human rights and security

6. Establish an independent national commission that sees that human rights are complied with and complements the functions of the Ombudsman.

7. Study the possibility of returning to the jurisdiction of the InterAmerican Court of Human Rights.
8. Invite the InterAmerican Commission of Human Rights to make a site visit.
9. Establish a National Plan to protect human rights, with advice from the InterAmerican Institute for Human Rights.

MECHANISM: By "officialist" and opposition members of Congress, with the advice of the InterAmerican Juridical Committee.

**Freedom of expression and the media**

10. Solve the problems with two television channels to the satisfaction of the parties.
11. Solve the Baruch Ivcher case satisfactorily
12. Guarantee media independence, especially the electronic media, and allow unrestricted use of same.
13. Guarantee access to the media for all political parties.
14. Legislation that permits access to information
15. Manage state publicity in accord with the Law for Contracting and State acquisitions.

MECHANISM: With advice from representatives of the press.

Source: OAS working document.
to the demands of a leadership style for the 21st century.

Progress through the strategic directions, institutional reforms and changing mentalities requires fundamental changes in the style of political leadership. The ambiguous, contradictory experiences of the last ten years shows that with "more of the same" we will lose, again, the opportunity to make a great leap toward the future. At this open moment in our history, it is very important that those who exercise political power should be able to lead democratically, aware of their historic responsibility to build a Peru that is governable in democracy.

Thus, it is important to break the habits and practices that have accompanied the exercise of power and authority in Peru for too long a time – and which were clearly and harshly described by Jorge Basadre (Box 9.5). We need leadership that is not personality-based and exclusive, but shared, open and transparent; that is not deceitful, corrupt and manipulative, but honest and respectful of citizens; that does not operate through patronage and dependency but empowers and creates opportunities for everyone. Leadership should be legitimate in the sense of being widely recognized by the citizenry. It should be based on respect for the rules of the democratic game, on the effectiveness of the actions it initiates and motivates, and on behaviors that are in accord with ethical and moral values. Political leadership should not be exercised by visionaries who believe themselves predestined "saviors of the fatherland" but by those who – with humility and a vocation for service – are capable of learning from the citizenry and considering themselves the servants of all Peruvians.

Electoral reform

16. Restructure the electoral system so the National Electoral Board, JNE, and the other electoral bodies (ONPE and RENIEC) are merged into a single state entity.
17. Ensure the oversight capacity of this new electoral body to investigate irregularities and apply sanctions.
18. The decisions by this new electoral body should be taken based on a reasonable majority so that this new organism can decide on entry objections, appeals and disqualifications.
19. Members of the new electoral agency should be named via a process that inspires confidence in all political players.
20. Establish Congressional representation with a multiple electoral district.
21. Ensure free access of all political players to the media, especially electronic media.

MECHANISM: In accord with the Commission for Democratization and the opposition, and with the participation of interested groups from civil society.

Control and the balance of powers

22. Strengthen the supervisory function of the Congress of the Republic for administrative acts.
23. Broaden the supervisory work of Congress with regard to the General Auditor of the Republic.
24. Establish a program to combat corruption.

MECHANISM: By members of Congress, of the national government and the opposition.

Other aspects linked to strengthening democracy

25. Put into operation the necessary, transparent mechanisms to exercise appropriate civil control over intelligence agencies and the Armed Forces.
26. Reform Congressional regulations so that a commission can be created to be exclusively in control of intelligence agencies. Members of this commission will be subject to a special regulation to maintain secrecy.
27. Update the law that regulates intelligence services to put an end to its participation in activities unrelated to national security.
28. Study measures to initiate a process of reform in the armed forces, to ensure that promotions, retirements or key positions obey criteria that are duly established, professional and transparent.
30. Law and measures to promote national reconciliation.
The new political leaders should be able to make all Peruvians feel like participants in a common project and to promote progress for those they lead. They should have the ability to listen and pay attention to points of view different from their own, to establish limits on the exercise of their authority and to resist the temptation to remain in power indefinitely (Box 8.8). Moreover, they should be conscious that by delegating attributes and responsibilities they reinforce their own sense of authority. Lastly, a leader should be able to make him/herself dispensable, which means preparing other people who can follow in his or her footsteps and perform better than (s)he. Only when those who exercise power and authority believe in solid institutions and shape new generations of leaders capable of surpassing them, can it be said that they behave as real leaders and are up to the challenges and demands that Peru of the 21st century presents.

BOX 9.5

Those who have frustrated the Peruvian dream

Six decades ago professor Jorge Basadre harshly criticized those who, throughout the entire period since Independence, have frustrated our country’s development.

“The promise of Peruvian life felt with such sincerity, so much faith and so much abnegation by Fathers of the Country and defenders of the people has often been cheated or trampled on by the work of its three major enemies: the Rotten, the Frozen and the Incendiary. The Rotten have prostituted and continue to prostitute words, concepts, facts and institutions exclusively for their own enrichment, gains, instincts and passions. The Frozen have shut themselves up within themselves, they look only at those who are their equals and their dependents, believing that no one else exists. The Incendiaries have burned themselves without providing illumination, they agitate without building. The Rotten have done and continue to do whatever they can to ensure that this country is a stagnant puddle. The Frozen see it as a barren place; and the Incendiaries would like to light explosives and dump venom to ignite a giant fire.

The entire key to the future is there: that Peru escape the danger of being nothing but a stagnant puddle, or turning into a barren place or going up in flames. May Peru not be lost due to either the efforts or the inaction of Peruvians.”


This report is an attempt to propose a comprehensive vision and development strategy for the next 20 years – articulating strategic directions, institutional reforms and changes in mentality. However, there is much to do to transform these proposals into policies, into practical measures and into a reality. This is a collective task in which political parties and movements have a very special responsibility.

Throughout the text we have used the textile metaphor to show the importance of linking development policies with democratic governance, interweaving the strategic directions that make up the weft with the institutional reforms of the warp and thereby creating a social fabric whose knots, designs and colors represent a plural, integrated national identity, one that is continually unfolding. It is worth remembering that this textile metaphor has deep roots in Peruvian culture. Continuing with this rich tradition, it is necessary to extend it to the social fabric that all of us should reconstruct with a vision of the future. In Chapter 14 of his Royal Commentaries of the Inca, Garcilaso de la Vega masterfully describes this tradition which goes back to the first Andean cultures and that has been enriched with contributions from many other cultures throughout half of the millennium.

“I forgot to say how the common people mend their clothes, which is something worth noting. If their clothing or any other part of their wardrobe is torn, not due to age but by accident, if some hook snags it or if some fire spark burns it or some other similar misfortune occurs, they take it, and with a needle made of a thorn (they didn’t know how to make it of metal) and a piece of thread of the same color and thickness of the cloth they reweave it, first going through the broken threads and returning through those of the weft fifteen or twenty threads to one side and another in front of the broken area, where they cut them and return with the same thread, always crossing and weaving the weft with the warp, and the warp with the weft; so that when the darn is done it looks as if it has not been broken; and although the break were like the palm of the hand and larger, they mended it as I have said, using the mouth of a pot as the loom, so the cloth would be tight and even. Laugh at the way the Spaniards mend; the truth is, weaving done by Indians is different.”
ADDENDA

Bibliography
Agenda: PERU and its participants
Index by topics
Selected bibliography

Note: This bibliography covers only documents written by the Agenda: PERÚ team and its consultants as well as contributions specially prepared for this report. Specific references to other material have been cited directly in the tables, figures and boxes, although it has not been possible to include each and every one of the sources used for the text. We recommend the reader to consult the bibliographies in the books, working documents and other texts that have served as source material for the present report.


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About AGENDA: Peru

Agenda: PERU is the principal program of FORO Nacional/Internacional, a non-profitmaking civil association established in Lima, Peru in November 1992. Its aims are to improve the prospects for development and democratic governance, promote dialogue and consensus on key issues and strengthen citizen development.

In its initial phase from 1993 to 1995, Agenda: PERU prepared a diagnosis of the problems of democratic governance in Peru. To this end, it carried out studies and research and created fora for discussion, debate and the creation of consensuses. It also organized a broad consultation process in many parts of the country, seeking to incorporate the views both of experts and of a wide range of ordinary men and women. This diagnosis allowed the identification of an agenda of initiatives capable of improving prospects for democratic governance in Peru.

Between 1996 and 1999, Agenda: PERU’s team focused on various topics derived from the agenda of initiatives, such as the reform of the state and the executive, the evaluation of social policies and poverty reduction, the participation of university students in national life, the impact of changes in the international arena on Peruvian development and the aspirations and desires that underpin the country’s vision of the future. In parallel, Agenda: PERU embarked on an effort to synthesize its own work with the contributions of other researchers into Peruvian reality. The objective was to design a development strategy for Peru in the transition to the 21st century.

Agenda: PERU’s approach and work methodology have laid emphasis on promoting dialogue and creating operative consensuses: it consulted not only experts but the citizenry at large. This led to the organization of a large number of seminars, workshops, conferences, in-depth interviews, focus groups and opinion polls both in the provinces and in Metropolitan Lima. The results of Agenda: PERU’s work are available in the form of a final report, a series of books and supporting documentation, supplements in magazines and inserts in newspapers. There is also an institutional web page.

Agenda: PERU’s program has received the disinterested support of hundreds of Peruvians who have participated in its activities over its seven years of existence. The early work was supported by the Mellon Foundation, the National Endowment for Democracy (NED), the US Agency for International Development (USAID), the Canadian International Development Agency (CIDA) and the Tinker Foundation. The last three mentioned continued supporting the program until its end. Other financial contributions have been received from the International Development Research Centre (IDRC) of Canada, the MacArthur Foundation, the Andean Development Corporation (CAF), the Organization of American States (OAS) and the International Foundation for Electoral Systems (IFES). AGENDA:Peru has also received financing for specific activities from private companies and individuals, as well as using its own resources generated through consultancy activities carried out by members of its research team.
Participants

Working team, consultants, event participants and those consulted during the course of the Agenda: PERU project (1993-1999)

Participants in the La República publication: Enrique Estremadoyro, Gustavo Mohme, Alejandro Sakuda, Mirko Laufer, Ángel Páez, Mónica Newton, Mónica Vello, Cecilia Olaechea, Nancy Chapell, Alejandro Santibáñez, José Olaya, María Cecilia Piazza/

Focus group participants (Metropolitan Lima): 64 participants in eight lower-income focus groups in metropolitan Lima/

Focus group participants (provinces): 126 participants in 26 lower-income focus groups, in the cities of Arequipa, Cusco, Trujillo, Huancayo and Chiclayo/

Opinion poll (Metropolitan Lima): 602 participants in a representative sample of the Metropolitan Lima population/


National opinion poll: 1,857 participants in a representative nationwide sample/

Polling firm: IMASEN, Giovana Peñaflor, Manuel Córdova, Martín Sánchez/

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### Index — by topics

The following are selected topics which recur throughout the text and may be relatively hard to locate in the index at the start of the book. References to key topics such as democracy and consensus, which are constantly mentioned in the text, are not included in this index.

<table>
<thead>
<tr>
<th>A</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbitration</td>
<td>226, 238-240</td>
</tr>
<tr>
<td>Armed Forces</td>
<td>34, 103, 123, 125, 127, 181, 182, 219-221, 231, 243, 252, 255, 256, 261-264, 266, 267, 279, 284, 285, 286, 287, 288, 313</td>
</tr>
<tr>
<td>Arts</td>
<td>34, 53, 274, 289, 292</td>
</tr>
<tr>
<td>Authoritarianism</td>
<td>35, 36, 262, 281, 282, 285, 286, 287, 299</td>
</tr>
<tr>
<td>Aviation</td>
<td>209, 210, 232</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of payments</td>
<td>54, 71, 72, 77</td>
</tr>
<tr>
<td>Banks</td>
<td>31, 39, 51, 57, 58, 74, 75, 79, 85, 89, 100, 102, 103, 129, 130, 185, 202, 203, 236, 250, 265, 306</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cadasters</td>
<td>192, 204</td>
</tr>
<tr>
<td>Cities</td>
<td>30, 32, 33, 43, 82, 93, 94, 96, 140, 166, 168, 169, 170, 191, 192, 196, 197, 200, 202-205, 250, 257, 265</td>
</tr>
<tr>
<td>Clubs, mothers</td>
<td>221, 253, 276</td>
</tr>
<tr>
<td>Clusters</td>
<td>70, 71, 80, 100, 101, 105, 106, 186, 249, 251, 284</td>
</tr>
<tr>
<td>Communities (traditional, rural, isolated)</td>
<td>33, 133, 134, 140, 148, 149, 155, 157, 166, 168, 178, 186, 188, 196, 210, 221, 237, 239, 240, 251, 253, 254, 284</td>
</tr>
<tr>
<td>Concessions</td>
<td>39, 56, 97, 103, 112, 157, 196, 203, 206, 207, 209, 210, 230, 236</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt, external</td>
<td>231</td>
</tr>
<tr>
<td>Decentralization</td>
<td>31, 32, 33, 34, 38, 50, 76, 77, 101, 102, 111, 118-120, 141, 154, 191, 192, 197, 199, 202, 203, 213, 221, 225, 244, 245, 247, 251, 307, 308</td>
</tr>
<tr>
<td>Defense, Civil</td>
<td>232, 247, 266</td>
</tr>
<tr>
<td>Deficit, fiscal</td>
<td>72, 83</td>
</tr>
<tr>
<td>Deforestation</td>
<td>153, 157, 158, 161, 204</td>
</tr>
<tr>
<td>Delinquency</td>
<td>200, 223, 260, 264, 265, 266</td>
</tr>
</tbody>
</table>
Discrimination 32, 88, 111, 114, 275, 276, 282, 291, 302, 303

E
Exports 32, 53, 54, 55, 56, 69, 70-75, 77, 79, 80, 86-90, 95, 97, 99, 100, 138, 148, 151, 156, 157, 164, 166, 206, 248, 249

F
Food 32, 109, 122, 305
security, 124-125

G
Gender 32, 44, 45, 114, 275, 276, 277, 291

H
Hydroelectric plants 97, 98, 103, 181

I
Identity 17-19, 30, 31, 34, 35, 45, 53, 63, 121, 122, 141, 200, 224, 229, 244, 245, 273-277, 279, 280, 288-293, 299, 302, 308, 310, 311, 314
Inflation 26, 71, 72, 74, 76, 77, 78, 83, 128, 309, 311
Internet 33, 49, 53, 61, 63, 117, 119, 179, 181, 211, 212, 213, 277, 301

J
Justice, administration of 34, 226, 238, 247, 266, 269, 288

M
Media, communications 45, 48, 49, 53
Militias 240, 254, 264, 265
Monopolies 46, 100, 222, 235, 236

P
Peasant 83, 134, 157, 204, 226, 237, 239, 240, 246, 254, 280
Philanthropy 112, 251, 256, 283, 284

R
Rights, property 81, 85, 90, 91, 128, 160
Index – by topics

S
Savings 32, 39, 54, 69, 73, 77, 78, 79, 115, 135, 148, 175, 250
Savings, domestic 78-80, 236
Savings, external 78-79, 236
Science and technology
gap between countries, 44
National Council for, 230
development in Peru, 82-188
education for, 118-119, 176, 290, 292
investment in, 180
values, 282
Self-exploitation 134, 138, 248
Sport 246, 256, 289, 292

T
Tax base 73, 76, 224
Terms of trade 52, 53, 72, 151
Trafficking, drugs 44, 45, 51, 52, 223, 226, 260, 265, 266, 268

U
Unemployment 25, 34, 44, 45, 46, 110, 113, 134, 135, 137, 223, 248, 252, 269, 299, 302
Urbanization 318

V

W
Watersheds 162, 172, 196, 197, 199
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Development strategies for the 21st century: the case of Peru

This publication is the final report of the Agenda: PERU project, a program on development strategies, institutional reforms and democratic governance prepared over the past few years by a team directed by Francisco Sagasti and Max Hernández. The results, now published, provide an integrated perspective on how Peru should develop during the first two decades of this new century. Taking as its starting point a diagnosis of the current situation and a vision of the future, the report proposes a new concept of international relations for Peru; draws up a series of strategic directions, development policies and institutional reforms; and points out an appropriate direction for citizen attitudes and mindsets in response to the challenges of the 21st century.