

» **Analysis of the State of the Government Speech by the President of Peru, Ollanta Humala Tasso**

Lima » 08 » 2013

**INTRODUCTION: "IT IS NOT ABOUT GROWING TO INCLUDE, BUT TO INCLUDE TO CONTINUE GROWING"**

The start of the speech of President Ollanta Humala Tasso was marked by self-criticism, "due to the recent events" —clearly referring to the incident known as "Repartija"— which, according to the President, clearly showed that they have not lost the ability to learn from their mistakes. "We have learned and corrected the errors; in the process of strengthening Democracy, this is essential", he stated.

Afterwards, President Humala highlighted the historically significant and auspicious moment that the country is experiencing as regards economic growth, although he also alluded to the economic problems that the country has been facing due to the international context, where "prices and external demand have started dropping and some of our export items are diminishing".

However, according to the President "we have the means to defend ourselves" thanks to the large international reserves, low levels of public debt, soundness of the financial system, greater purchasing power of the middle class and the entrepreneurial effort of the population, the main asset in a scenario like this.

Thirdly, he renewed the "firm commitment" to keep the resolve of the Government to foster social inclusion. "It is

not about growing to include, but to include to continue growing". This showed that his management will remain unaltered, focused on social programs as the cornerstone to promote the middle class as the engine of growth through consumption and the enhancement of services and not as a mere passive beneficiary of growth.

He then went on detail to describe what he called "the route taken and the implemented reforms" that have been carried out so far during his mandate.

**GENERAL ASPECTS**

The responsible management of the economy has, undoubtedly, as the President pointed out, allowed Peru to become one of countries with highest growth levels worldwide, which shows that "the correct decisions have been made".

According to the President, economic expansion during the second quarter of this year will remain around 6%. "Furthermore, 800,000 jobs have been created so far and unemployment has dropped by 7%", he added.

Humala also said that there has been a diversification of the economy, since non-traditional exportations already account for a third of the total exports, which translates into a total of 11 billion dollars, in addition to the export of services which sits at the 5 billion dollar mark.

As regards Tourism, the country has received over 2,800,000 visits, which translated into over 3 billion dollars. Additionally, Peruvians have made near 35 million trips throughout the country.

**PUBLIC POLICIES AND REFORMS: PROGRESS INDICATORS**

The President outlined all policies and reforms carried out during his mandate. He divided the speech into 11 items: (i) Tax Reform; (ii) Civil Service Reform; (iii) Education System Reform; (iv) Social Reforms, (v) Health Reform; (vi) Infrastructure Policy; (vii) Production, Agriculture and Food Policy; (viii) Mining Policy; (ix) Environmental and Cultural Policy; (x) Security and Defense Policy; (xi) Foreign Policy.



## Tax Reform

The President mentioned that the objective was to create a “clear, efficient and fair collection system”, which increased the number of contributors, minimized informality and made collection more equitable, with a clear commitment to spend the funds as efficiently as possible. In this sense, the President stated that the results reflected a higher efficiency as regards tax collection, since it used to account for around 13% of the GDP and now had reached 16% thanks to the growth in the number of contributors, “the highest rate recorded in our republican history” he added.

## Civil Service Reform

In this item, the President marked the differences with past regimes which sought to solve problems by firing and dismissing people, hiring public employees and allocating resources with limited or no planning at all, which entailed the co-existence of several labor regimes and over 400 remunerative and non-remunerative concepts, issues that the Reform of the Civil Service Law seeks to improve by strengthening the civil service, dignifying the task, raising its category, rewarding meritocracy, career development, training, efficiency and accountability.

At this point, the President mentioned the recently created National School of Public Administration, although he did not refer to the protests of unions that even demonstrated on the day of the speech.

## Education System Reform

In relation to this point President Humala focused on the following points:

- Incorporation of 248,000 teachers into a continuous training regime and better remuneration.
- Expansion of preschool coverage to 2,000 communities that, for the first time, have access to this service, which seeks to close the gaps in provision for children between 3 and 5 years of age.
- The addition of 400 rural schools and 600 urban schools to the tele-education system.
- Distribution of over a million texts and other materials in thirteen native languages.
- Access for 14,000 young people with good results from the poorest areas of the country, scholarships for higher and technical studies through Beca 18 and other alternatives. The objective is to reach 25,000 people in 2016. Also, through the scholarship program President, 400 young people will study their Master's Degree in the best Universities around the world, in countries such as the U.S., Mexico, Brazil, France, Spain, Germany and the UK, among others.
- The Competitive Funding program which accounts for PEN 800 million by the National System of Science, Technology and Innovation.
- Doubling the CONCYTEC budget.

## Social Reforms

As regards social reforms, the President described the five axis' of the strategy “Include to Grow”, based on each of the five life stages on which the work of the Social Programs are focused. Within the strategy the results of the following projects stand out:

- CUNA MÁS, reaching over 56,000 children in Children's Comprehensive Care Centers with a service

to aid families in rural areas, offering guidance to over 29,000 families.

- QALI WARMA which currently offers breakfast and lunch to over two million and a half scholars, and is expected to reach the 3 million mark by 2015.
- JÓVENES A LA OBRA, VAMOS PERÚ AND TRABAJA PERÚ, which has trained close to 40,000 young people in rural and urban areas to help them find a job.
- JUNTOS, reaching over 700,000 families, which take part in the productive development and financial education projects led by FONCODES.
- FONDO PARA LA INCLUSIÓN ECONÓMICA EN ZONAS RURALES (FONIE) is another successful model which, seven months after its creation, has funded 759 projects in poor districts to close gaps in basic infrastructure.
- Vida Digna and Pensión 65, which currently provides a pension to 275,000 seniors.

The President also pointed out that the government has implemented a nationwide registration in order to detect the places where people could be living in situations of poverty and vulnerability, apart from publishing the National Register of Social Programs Beneficiaries to ensure transparency and citizen oversight in affiliation to social programs.

Finally, he said that 37 new Women's Emergency Centers had been created and, recently, the Law that criminalizes femicide was passed.

## Health Reform

The President mentioned that this reform seeks to enhance the services and achieve a universal comprehensive health insurance, and includes the reorganization of the Ministry of Health, the modernization of the management of their investments and a new remunerative system.

He also highlighted that over 12 million Peruvians have become members of the Integral Health Insurance (SIS) and two and a half million children were covered by the program Q'ALI WARMA, providing them a comprehensive healthcare program. Furthermore, already 80% of the rural population has access to health care through the indiscriminate coverage between SIS and ESSALUD in 13 regions of the country.

Lastly, the President also reminded that 650,000 people received healthcare thanks to the program Plan Esperanza de Lucha contra el cáncer all over the country through early detection efforts and over 18,000 patients received free treatment. Additionally, the Solidarity Intangible Fund was expanded to address diseases of high cost, increasing from PEN 20 million to PEN 180 million.

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1 The first point of this strategy aims to reduce chronic child malnutrition and promote early development of children. The second seeks to create environments of care and quality education for infants. The third point establishes that children and young people should be able to complete their schooling successfully and have better conditions to access higher education or enter the labor market. The fourth point is comprised of a set of articulated measures to increase productivity in households in areas of poverty and exclusion and increase their ability to generate independent income sources. The fifth and final point strives for more social protection and quality health services for seniors living in poverty.

## Infrastructure Policy

In relation to this item, the President explained several results and developments. Among them, the award of 12 PPP projects which accounted for approximately USD 3.6 billion.

In the telecommunication sectors, the President mentioned the bandwidths investments at national level for USD 400 million and the allocation of high speed Internet frequencies with 4G technology with commitments to invest over USD 1 billion.

Likewise, as regards the Transport Sector, the President spoke about the construction and maintenance of the South Pan-American Road Quilca-La Concordia for USD 231 million.

President Humala also stated that Peru has a portfolio of projects for 2014 which accounts for an investment of over USD 14.4 billion in all sectors, “the most significant figure in our history”<sup>2</sup>.

He also said that the Government has allocated over PEN 4.5 billion to the inland for the implementation of 822 public investment projects related to water and sanitation programs which will help over 4 million people in the short term. He also explained several ongoing works<sup>3</sup>.

He also noted that during the last two years 6,652 km of the national road network have been built, enhanced or remodeled with an investment of PEN 8.245 billion, including the paving of the Longitudinal de la Sierra, a road of 538 km. The State has also funded works to create 835 km of regional roads and 1,142 km of country lanes in coordination with regional and local governments.

In line with this, the President noted that the ProPuentes organization was created, which built 54 bridges and has over 130 projects for the end of the year, with a final goal of over 1,000 bridges nationwide.

Additionally, 13,500 km of optical fiber will be constructed which will allow all provincial capitals to have broadband access.

The President also referred to the Road Longitudinal de la Sierra of which over 500 km have already been asphalted, 73% of the total; and the great project of the second Metro line in Lima, which will connect the districts of Ate and Callao with Jorge Chávez Airport, which entails an investment of over USD 5 billion.

Finally, he also said that the airport of Chinchero in Cusco and the General Port San Martin in Pisco are already underway, among other major infrastructure projects.

## Production, Agriculture and Food Policy

After speaking about the foreign interest that native-cultivated products generate, he stated that “Peruvian agriculture is the fastest growing sector in the Region”, in line with the Government’s commitment, as 2013 was defined as the “Year for investments to promote Rural Development and Food Security”, creating to this end the program Mi Riego with PEN 1 billion aimed at financing irrigation technology works in the high Andes. This helped 250,000 people and covered 40,000 hectares. To date, the program has been implemented in 19 regions of the country.

He also noted that developments are being made to comply with the health standards of artisanal fishery landings to boost the consumption of seafood products through the program “A comer pescado”.

## Mining Policy

President Humala first spoke about strengthening the social contract between the community, businesses and the State, leading to a harmonious relationship where everyone wins in a mining project. Therefore, he highlighted the case of the mining project Las Bambas where the government has announced, under the future mining taxes, important infrastructure works and the provision of education and healthcare services in Apurímac and, particularly, in the province of Cotabambas. He added that this is an experience that can be implemented in the rest of the country.

Anyway, in relation to some forecasts of slowdown within the mining sector, the President said that last year the mining investment exceeded USD 8.5 billion, 18% more than the previous year, “a historic record which consolidates a growing trend for six consecutive years”.

He also reminded that, by May 2013, the mining activity in Peru provided a livelihood for 3.5 million Peruvians, through direct and indirect jobs.

Regarding the formalization of artisanal miners, Humala said it would be carried out with a social inclusion perspective. The President also stated that the Government was determined to fight illegal mining, applying the full force of law and strengthening bans.

## Energy Policy

According to the President, the electrification goals are being achieved as planned and, for the 2013-2016 period, an investment of over PEN 2 billion is expected, which will provide an energy coverage of 92% in rural areas and 96% nationally.



<sup>2</sup> This includes projects on air, land and water transport totaling USD 6.8 billion; investments in energy and hydrocarbons for USD 5.4 billion; Telecom USD 370 million, sanitation USD 600 million and an irrigation project which accounted for USD 715 million, among others.

<sup>3</sup> In relation to this point, the President pointed out that SEDAPAL has been implementing an investment plan for the period 2013-2016, which will expand service coverage in Lima and Callao; and as regards the rural areas the National Program for Rural Sanitation has been launched, which will double the current water and sanitation coverage by 2016 among these populations. He also spoke about the Tambos, “a State platform whose objective is to bring the services and programs that are usually just available in the capitals of the Regions, to remote, more vulnerable populations in the high Andes and near the Amazon”. To date, 145 Tambos have been built and the figure is expected to rise to 350 by July next year.



With regard to the commitment to lower the prices of gas for domestic consumption, he reminded that it had been fulfilled. “With the creation of the Social Inclusion Energy Fund (FISE), currently 500,000 families have access to cheap gas through a discount of PEN 16 per gas canister”, he added.

He also highlighted the expansion of the household gas connections network, which entails a saving of 30% for the families that are using the system.

To date, 85,000 connections have been installed and we expect to increase this figure by 100,000 per year”, the President confirmed.

In relation to the modernization of Petroperú, the President said that, in order to implement the best practices in corporate governance, the Project of Desulphurization and Expansion of the Talara Refinery will be carried out, which will call for an estimated investment of USD 2.73 billion.

“To this end, an international consultant will be hired to advise and join Petroperú in the design and implementation of the relevant shares, to make it public, so that all Peruvians can be directly involved in the ownership of the company along with local and international investors”, the President said.

### Environmental Policy

In relation to this issue, the President talked about the development of the regulations of the Prior Consultation, indicating that the first consultation process had been carried out in the Loreto region to establish the Regional Conservation Area –Majuna–, although not much more information was disclosed, particularly as regards the list of indigenous communities or the IAB cases.

### Security and Defense Policy

On the issue of insecurity, the President insisted on the fact that there is still a shortage of policemen, a very lax legislation for minor offenses, lack of equipment and prison overcrowding which promotes the organization of a set of offenses within prison, although he did not provide any important information to this respect.

As regards this issue the President defined seven pillars<sup>4</sup> on which the fight against crime have stood. He also spoke about investments regarding the operational capacity of the Police, accounting for PEN 650 million. This way, police stations, border posts and regional centers could be remodeled. In addition, three criminalistics laboratories have been created in the interior and a main laboratory in Lima.

Routes have also been established for the transit of controlled chemical substances, which is responsibility for the first time in Peruvian history of the Superintendency of Tax Audit (SUNAT).

The President stated that there is an emergency communication platform which is being expanded throughout the country as well as modern video surveillance systems; besides having strengthened the equipment of police forces through the acquisition of 800 intelligent police cars, 4 helicopters, 1500 motorbikes and the incoming purchase of 2000 road surveillance cars and 2000 patrolling bikes.

Here, as regards results, the President pointed out the following points:

- 300,000 police interventions.

- Detention of 56,000 people and 90,000 on the wanted list.
- Dismantling of 4,844 gangs and 42,000 interventions regarding young people who were part of these gangs.
- Seizure of over 5,000 firearms and contraband merchandise for over PEN 350 million, in addition to over PEN 80 million in cash.

As for the fight against drug trafficking, the results are as follows:

- In 2012 over 14,000 hectares of coca leaf have been destroyed and the objective for the current year is 22,000 hectares, an unprecedented figure in the history of Peru.
- 33 clandestine airfields were also destroyed, along with 810 cocaine hydrochloride laboratories and 1,421 maceration pits.
- In addition, over 22 tons of cocaine paste, 14 tons of cocaine and over 7 tons of marijuana were seized.
- New police stations have also been recently established as the one in the area of Pichis Palcazu.

In relation to the fight against corruption:

- Over 500 investigations for corruption were conducted in the last two years.
- Furthermore, the Loss of Domain Act, which seeks to confiscate the assets of criminal organizations, has entailed the seizure of over USD 180 million.

As for the correctional aspects, 8 further prisons are expected to be built and 11 will be remodeled all over the country.

Finally, within the scope of National Defense, obsolete material and equipment has been replaced, especially among the soldiers fighting in the Valley of Apurimac River, Ene and Mantaro (VRAEM).

### Foreign Policy

In this regard, the President noted that under the current context marked by the dispute over maritime boundaries with Chile at the International Court of Justice in The Hague, the country stands united and efforts have been made in order to create an environment of cooperation and serenity, to reaffirm both the Peruvian and Chilean commitment to abide by and enforce the judgment of The Hague.

4 The seven pillars on which the fight against crime will stand are: (i) Implementation of the Public Safety Plan 2013-2018 and the unconditional support agreements with all political forces through the Pact for Public Safety; (ii) Promotion of Police Reform involving the consolidation of police activity and institutional changes; (iii) Allocation of up to PEN 250 million to the Fund for the Promotion of Regional and Local Public Investments (FONIPREL) for regional and local governments to compete in projects relating to public safety, (iv) Promotion with local and regional governments of a policy to reclaim public spaces, prevention activities, social work with young people and control of drug use among other measures; (v) Continuation of the fight against police corruption through the System of Intelligence and Counterintelligence in order to identify, report and dismiss corrupt policemen, (vi) Implementation of elite police units to combat organized crime in the regions with highest crime rate with the collaboration of National Intelligence, the Financial Intelligence Unit, Sunat, the Public Prosecutor's Office and the Judicial System; (vii) Promotion of Command and Coordination Centers for public safety with the use of technology, intelligence and consolidation of video surveillance centers to address the critical points in the cities with the highest crime rate

The President also mentioned the protection of the rights of Peruvians abroad as one of the most important national priorities. He also talked about the Law of Economic and Social Reintegration for Returning Emigrants.

He finally spoke about Peru's position within the region, renewing the commitment to the Andean Community, CELAC and UNASUR, whose Pro Tempore Secretariat is currently held by Peru. He also mentioned that one of the most successful platforms to promote the Peruvian interests is the Pacific Alliance, under which a treaty for the free movement of goods, services, capital and people from Colombia, Chile, Mexico and Peru is being negotiated.

"This promotion is aimed at consolidating the presence of Peru in the international arena, to open markets and attract investment and, therefore, a renewed relationship with Africa and the Arab world has been established. This relation entailed the organization of the Third Summit of Heads of State of the Arab Countries and South America in Lima.

### ANNOUNCEMENTS

Within the announcements made by the President, he also confirmed that the pace of growth would be maintained, improving management and fighting corruption in a context of stability and unconditional respect for legal certainty and the rule of law.

Again, he mentioned the measures launched a few months ago to unlock the execution of investments with a specialized monitoring team for investment projects, apart from establishing penalties for officials that arbitrarily create bureaucratic barriers, thus speeding up the approval of procedures and reformulating rules of the mechanism of the public works tax, among others.

In order to ensure public co-financing for projects that are viable, the Budget Law for 2014 will create a fund for Private Initiatives which could be co-financed by up to PEN 1.5 billion during the first year.

The President also reaffirmed the Government's commitment to provide reasonable financing alternatives to medium, small and microenterprises, and thus launched the reform for the Peruvian market to become the most competitive and efficient arena in the region and be complemented with the recently reformed Private Pension System, to expand pension coverage, increase the profitability of our funds and benefit the members, having achieved to date, a reduction to a third of the average charged.

He also mentioned the National Industrial Development Plan that has been recently designed and whose objective is to diversify the production and the promotion of added value, enhancing the technical human capital and using applied market research to face the market needs. In this line the government implemented the recent tax incentives granted to small and medium enterprises.

A reform of the National Quality System is also being considered, as it would imply compliance with international standards of goods and services produced by Peruvian enterprises, particularly smaller ones.

The Government also stated that it would propose during the current mandate a project to strengthen the Government Procurement Act, in an effort to enhance the quality of the human resources of the State. The President added that for these reforms to be successful the National Control System would be reviewed to ensure an appropriate use of state resources and reward efficiency.

But the most important announcement was the proposal to debate the decentralization process, an issue that could define the three following years of the Government. As regards this point, the President reminded that the Government has made nine Decentralized Councils of Minister and these, together with the authorities, entailed the approval of works for over PEN 22.7 billion.

### CONCLUSIONS

Overall, the format of the Presidential speech was identical to the one used last year, when the President detailed the results of the implemented actions, policies or public reforms during their mandate. Beyond this point, the present speech did not detail any new reform or policy, despite the brief proposal to debate about the decentralization process, which could have been further developed.

Indeed, highlighting in detail the process that social programs have entailed or mentioning that the economic model will remain unaltered, respecting the legal framework, is slowly becoming a repetitive speech. Instead, the President could have advanced some new issues to introduce a new topic on the public agenda.

Despite the criticism that the speech of last year generated, the population understood that it was the first review of social programs that had been recently launched and also due to the demands of development indicators and public policy goals that some opinions leader made. In this sense, the previous speech could be justified. Instead, the current one, a mere repetition of the same proposal, is rather counterproductive, as the Government is experiencing political isolation.

On the Government's agenda of pending issues only the First Consultation was mentioned, although several aspects remain unsolved, such as which communities will take part and which will not and the date on which the Regulation is finally going to be published, since it was expected two years ago.

Furthermore, in relation to the fight against narco-terrorism in VRAEM, the President talked about the degree of progress regarding the destruction of fields and maceration structures, but not about the possibility to capture the main leaders and remnants of these groups that still control VRAEM. Likewise, the issue of civil insecurity entailed important developments, but they were not correctly communicated to the population to reduce the tension that the current context has generated.



On the other hand, it is clear that the aspect where the Government has progressed the most is the reform of state management for investment promotion, which ensures a sound legal framework for entrepreneurs. In this sense, it could be said that the entrepreneurial sphere should be the most satisfied sector to continue investing, consolidating the confidence that had received a severe blow in the past, but it will also depend on these reforms efficiently increasing investments, which is expected to happen by the end of the year.

To conclude, the President has not raised any issues related to communication, which would be key to enhance the Government's relationship with those sectors that no longer trust him, whether it is the leftist groups that supported him at the beginning of his government, social organizations, his own party or even opposition parties, entrepreneurs and the media. Particularly, since the Government has critical towards this sector during the last months.



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