HOW PERU'S POOR DEFEATED TERRORISM

BY

HERNANDO DE SOTO

This book contains two info-graphics summarizing the history of the war

ILD
Instituto Libertad y Democracia

We would like to acknowledge the contributions made by:
Ana Lucía Camaiora
Miriam Gago
Gustavo Marini
Manuel Mayorga
Miriam Ulloa
Melissa Mussio
Víctor Andrés Ponce
Roberto Quiroz Morote
Jackeline Silva

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Introduction

“Everything obeys a plan that, through international treaties and national reforms (…), aims against the People’s War and seeks to annihilate it (…). It was designed and implemented by Hernando de Soto, direct agent of Yankee imperialism.”

Abimael Guzman, in his essay “On the two hills” (January 1991), when he was ousted from VRAEM*.

Hernando de Soto and the fighters belonging to the VRAEM counterinsurgency committee.

*VRAEM: Apurimac-Ene and Mantaro River Valleys

PART I
The Peruvian Industrial Revolution: From small homeland to great motherland

The term "Industrial Revolution" does not refer simply to the creation of new manufacturing technologies in the late 18th and early 19th Centuries but also to the new economic relationships that emerged in the US and Europe as their societies reorganized themselves to produce on a large scale. The economic history of the world over the past 200 years is a story of a rocky transition from different ways of cooperating on a small-scale —feudal, tribal, patrimonial, colonial, and small businesses— to the kind of cooperation that permitted people to reap all the benefits of exchanging knowledge and products on a large-scale.

This revolution did not arrive in Peru until the 1960s, when millions of Peruvians gradually began to abandon their ways of producing on a small scale —such as in communities or cooperatives, where work is divided among acquaintances— to join, as families or individuals in the national market, where large-scale production is possible and work is divided among strangers.

Half of them parceled their land and holdings but stayed in the comfort of their communities. The other half bit the bullet and began migrating to Peru's cities. These were dramatic decisions, often with the great suffering involved when people believe they have no other choice but to leave their small and traditional homelands to settle in large, unfriendly cities – moving from a life in which top-down equality and shared poverty are considered virtues towards one where climbing the class ladder was praised rather than frowned upon.

When they reached their new destinations hoping for a better life these emerging classes came up against a wall of laws, barriers, corruption, and influence brokers that blocked their access to private formal activities. Opening a textile workshop took 289 days and cost 31 times the minimum wage; legalizing land ownership in marginal areas required following 728 bureaucratic steps and could take up to 15 years. The legal system provoked much frustration and rebellion.

The tragic result was that this wave of migrants seeking a better life, they found themselves entrenched in an anarchic free market that we now call "informality." This is the reason why Peru experienced its first large national movement against permits, defending individual freedom and private enterprise. Poor Peruvians accomplished this transformation democratically ten years before Chileans did it dictatorially; 20 years before Hayek and Friedman visited Lima; 25 years before The National Confederation of Private Business Institutions (CONFIEP) was created, and 30 years before Peru was reintegrated into the global financial system.

Today, the vanguard challenging the conservative status quo comprises approximately 70% of the country and continues growing —not only in the cities but also in the mining areas of the country, where two million Peruvians and their families run the entire productive chain of what we call "informal mining."

This situation could lead to important reforms that will allow us all to be integrated and prosper in a globalized world – or it could plunge us into a whirlwind of deadly conflict, as happened less than 25 years ago.

The Industrial Revolution generated growth –and inequality

During the past 60 years, the Industrial Revolution has generated more economic growth in the West than in the previous 2,000 years. Although this phenomenon has released hundreds of millions of people from poverty, while generating scientific advances that have lengthened our lifespan and broadened cognitive horizons, it has also made us more interdependent and conscious of the fact that the market richly rewards those that have the capacity to speculate, save or maximize their inheritances. This has generated inequalities that —justly or unjustly— offend many.

These were the very inequalities upon which the communist ideology was built, bolstered by a formidable intellectual architecture that recognizes the Industrial Revolution's contribution to improving wellbeing but argues that these benefits can be achieved without generating inequalities – by a proletarian dictatorship administered by a Communist Party. This anti-private proposal became a reality in Russia at the beginning of the 20th century; in less than fifty years, Communism had engulfed half of Europe and Asia.

After World War II, the West recovered from the Communist onslaught; reorganized intellectually; read and analyzed the great Communist thinker Karl Marx; and took from him what was necessary to make minimal adjustments to social justice, instituted a social welfare system that grew a productive middle class, effectively defeating Communism in every area, except ballet.

The decisive intellectual blow to Communism was when the free market began to open up to emerging peoples throughout the developing world and fully embrace their customs in all their diversity. This convinced the Communist parties in the West, country by country, that the tension between growth and equality is a permanent and changing phenomenon that could be better managed in a free and competitive society where the vicissitudes of the concentrations of power are more visible.

Peru, however, failed to learn these lessons, opening the door to various Communist parties in the 70s and 80s —the so-called "New Left"— which criticized the passivity of the traditional Communists and developed clandestine, organized and parallel apparatuses for "armed struggle" to mobilize the discontent of emerging populations in the countryside and in the city.

PART II
Sendero organizes guerrilla forces to stop Industrial Revolution in Peruvian agriculture

The most daring and intellectually impressive of these Communist parties, which called itself "The Shining Path," was the first to implement a strategy for armed struggle. In May 1980, just when a military dictatorship was coming to an end in Peru, the Shining Path began taking control of rural towns in the department of Ayacucho through a series of attacks on police posts, killing dozens of policemen and stealing their guns and ammunition.

A typical Shining Path flier.

Initially, expectations ran high among farmers seduced by the Shining Path's promises. However, their enthusiasm soon vanished. When the Shining Path tried to collectivize their lands —ignoring that these had already been parceled— expropriate part of their production, recruit their teenage children to participate in ambushes on police and military outposts, and publicly execute those who did not obey, armed resistance grew among the farmers.

A Sunday market in a town in the Peruvian Andes.

To defend themselves, the locals declared their own war against the Shining Path and began to form rural "Self-Defense Committees", known by their Spanish acronym as DECAS —armed only with "huaracas" (Andean slingshots), spears, machetes, knives and homemade hunting rifles that were called "hechizos." The DECAS evolved over the years into a force of 120,000 combatants who, alongside 30,000 soldiers of Peru's Armed Forces, dealt Communism its most resounding defeat in Latin America. A quarter of a century later, Peru's defeat of the Shining Path remains the only triumph against homegrown terrorism in the Third World.

Members of a Self-defense Committee in training. Courtesy of Expreso newspaper.

This historic victory, however, was only possible once the Peruvian Armed Forces finally agreed to ally with DECAS – ten years after the Self-Defense Committees took up arms. This delay was regrettable because, like the wars in Vietnam or the current conflicts in the Middle East, soldiers and police sent from Lima to the highlands and the jungle were unable to distinguish between terrorists and peasants, who had the same skin color and clothes. The official forces killed too many innocent people. As one leader of the DECAS told me:

"The military who were sent to combat were both blind and deaf and dumb given that the majority spoke no Quechua," the indigenous language.

Why did it take the State so long to forge an alliance with the peasants against the Shining Path? The communist insurgency never had the support of more than six percent of the population. There is evidence that a number of military officials realized that the war against the Shining Path urgently needed citizen participation. From what I gather, the Peruvian government did not listen to the DECAS pleas for help until 1984, when General Adrian Huaman Centeno, an officer with a peasant background and a Quechua speaker, was named head of Military Political Command in Ayacucho.

Visiting a community of Ayacucho, Gen. Huaman held talks with the main leader of the people. According to the General, the discussion went as follows:

"Why do you let the terrorists kill and steal from your people? Are you a coward?"

"I am not a coward! You say this because you have guns. We have nothing to defend ourselves with, only rocks and machetes. And they come with guns and dynamite. What do you expect, that we let ourselves be killed?"

Gen. Huaman immediately gave a signal —and his men jumped off the helicopter with rifles and ammunition, which they handed over to the peasants. By talking and listening to local leaders, the general was gradually encouraging them to organize their people. Huaman's reputation —he became known as "The Peasant General"— grew to the point that the leader of the Shining Path, Abimael Guzman, ordered his people to take every measure possible to prevent community members from meeting with the general. The terrorists went to the extreme of kidnapping and killing entire communities or hiding them in caves or gorges, where many died of cold or hunger.

General Huaman in military uniform.

Gen. Huaman's crowning achievement came on August 12, 1984, in the district of Vinchos, province of Huamanga, where more than 8,000 members of at least 44 communities swore allegiance to the national flag and pledged to fight terrorism. The Peasant Community still celebrates this event as the "Oath of Vinchos." At the height of battle, Gen. Huaman's forces hammered the Shining Path politically. Before the month was over, however, he was relieved of duty —for giving an interview in which he stated that the fight against terrorism was mainly a political rather than military problem.

The loss of Huaman didn't stop other military leaders from working directly with DECAS on the quiet, listening to them and providing support to their resistance efforts whenever possible. But the lack of clear orders from the Executive Branch or military meant that these relationships with the DECAS were managed according to the criteria of the head of the Military Political Command, which changed every year. Why weren't the orders given?

The best answer that we received was that Communist propaganda had successfully labeled the peasants as "paramilitary" soldiers who were at the service of hacienda owners and private interests. That false image also coincided with the condemnation by the international media and major Western Governments of abuses by a paramilitary group in Colombia. Peruvian leaders worried that they would be dragged into national or international courts, if they officially armed the DECAS. That wariness was nurtured further by the prejudice of residents of Lima against people from the mountains —racism only strengthened by the conclusions of the Uchuraccay Commission, an official inquiry into the murder of eight journalists in Ayachuco in 1983, that the peasants were "primitive" and incapable of understanding sophisticated laws

For the DECAS, it was an uphill ride to respectability, until 1989, when I received a visit from Hugo Huillca, who headed the group known as the "Anti-subversive Self-Defense Army in the Apurimac and Ene River Valley," which numbered 20,000 armed peasants. The Shining Path had begun to gain momentum in his region, and an alliance with formal Peru was essential to the survival of Huillca's forces. The success of the Shining Path in the countryside was already well known —and feared. The Rand Corporation, a respected US think tank, had submitted a report to the US Department of Defense, concluding that the Shining Path "could win": it was not likely that the insurgents could be driven out of the An-

des, the report argued, predicting that the Communist insurgency would take over Peru in 1992. The US State Department envisioned another Cambodia, where Pol Pot's Khmer Rouge had massacred three million people.

Ironically, the consensus in the capital city of Lima equally underestimated the situation: Limeños believed —and continue to believe— that the Shining Path was a group of miscreants who had put a car bomb in Tarata, a central Street in the middle of the shopping district of the upscale neighborhood of Miraflores. Surely, all it would take was a few heroic policemen to put an end to the nastiness. Nevertheless, foreign intelligence services were well aware that the war was being defined in the countryside. They knew that only 2% of the Shining Path's violence was being carried out in Lima, consisting of power blackouts and firebomb or dynamite attacks. Lima was generally unaware of the fact that 60% of the territory of Peru was under a state of emergency, and that the Shining Path's strategy was to surround the capital city's population, and then knock Lima out.

During much of the war against the Shining Path, the military was forced to play defense, handicapped by its incapacity to distinguish between terrorists and regular citizens. The fear of prosecution by authorities in Peru and abroad also remained an obstacle to moving more aggressively in the field. Meantime, the information and intelligence that the State needed to win the war against terror under the most humane conditions possible was in the hands of the peasants who had been fighting the Shining Path for years.

How could the international community be convinced that the guilty parties in Peru's war were not "illiterate peasants" (as the locals called themselves) who had no way to make their case —in Spanish or any other language— but rather the teachers, lawyers, and articulate intellectuals of the Shining Path who were dedicated to a radical communist ideology?

How could the United States be made to understand that the majority of farmers that produced coca leaves were not drug traffickers; that it was the Shining Path who protected the real criminals in exchange for war taxes paid out of their drug profits? How could Peru persuade the rest of the world understand that this informal peasant army that had been battling terrorists for years was an expression of the Peruvian Industrial Revolution?

Some of the researchers at ILD decided to study these questions in order to demolish the prejudices inside and outside of Peru that continued to impede the military from joining forces with the DECAS. The following pages constitute a journalistic narrative, the facts well documented, of how the war in the countryside was ended by a community that has yet to be recognized for that historic triumph.

Unfortunately, this narrative does not tell the whole story because no one knows the whole story. But one thing we are sure of is that to learn lessons from the past it is first necessary to generate a debate about the facts that we do know.

To help tell this complicated story as clearly as possible, we provide an info-graphic that lays out the main events of the war against the Shining Path, as the facts unfolded before us. The horizontal line measures the length of the war; the vertical line the number of deaths caused by the war. The info-graphic is divided into five descriptive columns labeled in Roman numerals, summarizing the ILD's role: COLUMN I. The Shining Path attacks defenseless peasants in the countryside. COLUMN II. Peasants create an extralegal army to defend themselves. COLUMN III. The Shining Path strikes back, creating the need to resolve peasant extralegality: the "category trap." COLUMN IV. Abimael Guzman is the first to recognize the strategy that will defeat the Shining Path. COLUMN V. The triumph of the peasants and their inclusion in the rule of law.

The first thing to note about this info-graphic is that the war against the Shining path took place primarily in the provinces of Peru, where, as the yellow curve indicates, 98% of the Shining Path's victims were killed. The blue line represents the violence in the capital, the site of only 2% of the total deaths in the war against the Shining Path.

Defeating Shining Path Violence

I Shining Path (SP) attacks defenseless farmers in countryside

II Farmers create illegal army to defend themselves

III SP strikes back -cre need to deal with th illegality, the "categ

1 Shining Path (SP) well received in provinces.

2 SP proposes to collectivize property and abolish currency and local markets.

3 Farmers resist and create Peru's first libertarian movement.

4 SP responds with a spiral of killing that last three years.

5 On 31/12/82, faced with a peasant massacre, President Belaunde sends Armed Forces to fight SP, but they are unable to distinguish farmers from enemies. They have neither the eyes nor ears to know who is who, and because farmer organizations are illegal, the army cannot join their fight against terrorism. The result: Government trapped, Army blind, peasants unarmed.

6 Uchuraccay Commission Report: describes the existence of two Perus, but qualifies formal law as "sophisticated" and people of Uchuraccay as "primitive." The report, though well intentioned, increased the government's entrapment: could not consider the farmers' organizations as "valid interlocutors" not only because of their illegal nature but also because of their image as "primitive," i.e. irresponsible. Despite the fact that 4,600 farmers had been killed fighting the SP.

7 Creation of illegal peasant army —armed with spears, slingshots, and homemade shotguns— that after two years of battle, corners SP in highlands (1985).

8 SP re-assembles, strikes back, recovers territory, and expands throughout 60% of Peru. Mass killings begin again.

9 ILD's proposal to distinguish the informal people from the criminals.

President Garcia invites the ILD to take their proposal to the Cartagena summit.

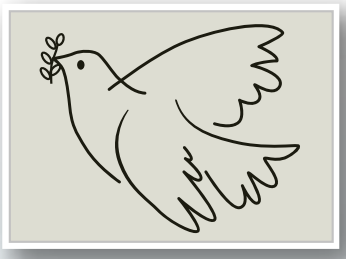
10 US assesses that SP could win by 1992. Rand Corporation reports that Peru is "on the brink of collapse." State Department predicts a possible massacre similar to the three million killed by Pol Pot in Cambodia..

ating the
e farmers'
ory trap"

IV Abimael first to perceive ILD strategy to defeat SP

"They have evicted us ... it all follows a plan conceived of and implemented by Hernando de Soto [ILD], a direct agent of Yankee imperialism".
Abimael Guzman "The Two Hills"

V Triumph of farmers and their incorporation into the law



11 Farmers' organizations make first contact with ILD.

12 ILD press campaign to promote re-categorization of farmers and thus distinguish informals from criminals.

14 ILD organizes a strategy for dialogue and peace through which the major farmers' organizations voluntarily identify themselves, are recognized as valid partners, and their defense can be organized according to law.

17 White House Summit between Presidents Fujimori and Bush, Scowcroft (NSA), and de Soto (ILD) to establish commitments to fight crime with the help of Peruvian farmers.

16 UN Secretary General and UN's Drug Control Program agree to supervise legalization process.

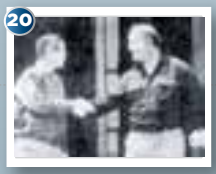
15 Defense Secretary, Dick Cheney, and Vice President, Dan Quayle and the Chief of his Cabinet, Bill Kristol, are involved in the White House approving the Peruvian strategy.

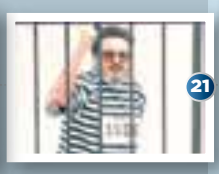
13 Government freezes security and drug agreement with US and charges ILD to re-negotiate. ILD seizes the opportunity to shift the responsibility for the conflict with SP to US Strategic and Political Affairs to then promote the issue to the White House, where farmers can be re-categorized into valid interlocutors allowing Peru to build an anti-subversive and economic empowerment strategy.

19 SP, aware of its inevitable defeat, retreats to Lima -two years before Abimael Guzman is captured.

18 The American authorities and the UN, together with the ILD's De Soto, travel throughout the country to meet the local authorities and certify that they are legit.

The ILD developed and implemented the OAS approved plan in order to shorten the dictatorship of April 5th.





21 Guzman surrenders in Lima without any resistance.

22 Legitimacy of farmers is recognized and their army -120,000 strong- is formalized nationwide. It's the beginning of the end of the Shining Path. Legislative Decree 741 legalizes the farmers' organizations and empowers them to defend themselves under the strict supervision of the armed forces.

23 Peasant leaders invited by ILD are transported aboard two C130 to Government Palace to be officially recognized as valid interlocutors and property owners.

25 Bombed more than any other civilian organization, ILD has no place in the official memory but is in the memory of many farmers.

COLUMN I
The Shining Path attacks defenseless peasants in the countryside

Between 1981 and 1984, the peasants rebelled against the Shining Path due to its policy of collectivizing lands and replacing money with barter or local exchange. The Shining Path punished the peasants, killing 4,600 between 1981 and 1983.

Local resistance began in 1981, when peasants from Ayacucho, Huancavelica, and Apurimac rebelled against the Shining Path's communist policies. The movement had failed to take into account that the majority of the lands in the highlands had already been privatized through a growing informal, national consensus and private agreements between the peasants themselves who aspired to become part of the middle class.

Shining Path parade in Andean village.

COLUMN II
The peasants create an extralegal army to defend themselves

Self-Defense groups in the Andes. Photo: Gustavo Buntix exhibition at the Micro Museum.

In 1984, the victims of the Shining Path prepared a counterattack to protect the values of the emerging middle class. Approximately 20,000 peasants from Ayacucho were organized into extralegal "Civil Defense Committees," (DECAS) and proceeded to mount an offensive.

Armed with spears, slingshots and buckshot rifles, peasants backed the Shining Path into a corner in 1985. In 1986, the peasants regained control over the majority of the valleys where they lived and farmed, which forced the Shining Path to take refuge at higher altitudes.

COLUMN III
The Shining Path counterattacks, creating the need to address the "categorical trap" – the illegality of the armed peasant forces

Shining Path poster.

Between 1987 and 1990, the Shining Path returned to the Andes better organized and with financial support. The movement expanded its presence to 60% of the national territory and imposed its laws through death and terror. Their success destroyed what was left of the formal legal system, government offices, and commercial banking – and the information they held.

Pessimism reigned among foreign policy experts in the US and Europe, who were very concerned about Peru's future. Lima was unaware of the difficulties in the countryside, mainly because the Shining Path was conducting only 2% of its violent actions in the capital (the blue line in the info-graphic). In fact, lulling Lima into a sense of false security was key to the Shining Path's overall strategy: dominating the countryside completely and then swooping in to take control of the capital, before the population even knew that the insurgents were in control of the rest of the coutry.

Terrorists on TV.

In 1990, the Rand Corporation, a US think tank that generated excellent research on war and society, informed the US Department of Defense that the Shining Path was "a virtually inexpungible presence in the Andes" and that Peru was on the "verge of collapse." Rand went as far as predicting that the Shining Path would be victorious by 1992. The State Department feared that Peru would become another Cambodia, where Pol Pot's Khmer Rouge massacred more than three million people.

The peasants had fallen into what the philosopher Kant would have called a "category trap." Peru's State institutions had placed two different categories in the same basket: "good illegals," ordinary, hardworking people forced – like the majority of Peruvians – to work outside the law; and "bad illegals" (drug traffickers, criminals, paramilitary groups or hit men working for the rich). Worse still, on the battlefield, the Armed Forces could not distinguish between the terrorists and ordinary citizens.

Any political or military authority that tried to defend the victims ran the risk of being dragged before the court, jailed, humiliated and torn from his family – or being pursued for prosecution for the rest of his life. For their part, the peasants had no way to present their case. They defined themselves as "unread;" the Shining Path were quite the opposite: well-educated school teachers, professors and lawyers.

COLUMN IV
The Shining Path's leader was the first to recognize the strategy that would eventually defeat his Communist revolution

"Everything obeys a plan that, through international treaties and national reforms (...), aims against the People's War and seeks to annihilate it (...). It was designed and implemented by Hernando de Soto, a direct agent of Yankee imperialism."

Abimael Guzman, "On the Two Hills"

It took my organization, the ILD, two years to devise a plan to reframe the image of the DECAS – at home and abroad – from illegal armed forces to the vanguard of a Peruvian industrial and human rights revolution. In order to prove that a Government alliance with the DECAS would not contravene the obligations of international treaties signed by Peru, we invited inspectors from the UN and various developed countries to visit conflict zones and personally meet with rural organizations, including the DECAS, to see for themselves that these peasant groups were neither illegal paramilitaries or drug traffickers but defenders of a besieged population worthy of being re-categorized as "valid interlocutors" who could assist the armed forces in an all out effort to defeat terrorism.

The ILD made a complete inventory of peasant organizations located in the conflict zone, as shown in the ad below, to ensure that all would be re-categorized.

In a big step towards formalization, the peasant groups provided us with the information needed to register their assets according to their own legislation, using forms like the one shown below.

After the negotiations at the highest political level in Washington, US authorities accepted the Peruvian re-categorization of the DECAS and coca farmers, confirmed in an agreement with Peru signed on 14 May 1991. In it, they acknowledged that the farmers were not by definition drug traffickers but extralegal producers; that the US strategy against the influx of Latin American narcotics had to be aimed exclusively against drug traffickers; and that the best way to achieve that was to create an alliance between the government and farmers through policies that prioritized democratic participation, property rights, and some environment friendly alternative development measures.

According to the agreement: Coca farmers comprise an economic and social class quite apart from that of the people involved in drug trafficking. The former are poor and are engaged in this activity mostly for subsistence, because they can not legally enter another; while the latter are prosperous and do not have to contend with these barriers.

Thus, the coca farmers were released from a criminal category and allowed to join their forces with Peru's army. This new army won the war against the Shining Path in the countryside in 1991 – a year before Abimael Guzman was captured in Lima without soldiers to protect him.

All this was possible thanks to the support received from several members of the US Congress and the veteran Peruvian diplomat Javier Perez de Cuellar, then Secretary General of the UN. Also worthy of special recognition in re-categorizing the DECAS was the sitting US Vice President Dan Quayle, his chief of staff Bill Kristol, and the Secretary of Defense Dick Cheney who helped us take Peru's dilemma directly to the White House to meet with President George H.W. Bush and his National Security Advisor Brent Scowcroft,. President Bush understood this issue immediately and sealed the "Drug Enforcement and Anti-Subversive Agreement" with Peru, thereby creating the conditions needed to win the war.

An anecdote worth sharing: As soon as the President heard the explanation of the farmers' role in Peru's war against terrorism, his face lit up and he said, "What you are telling me is that "these little guys" are with us." He had understood perfectly.


Hernando de Soto con Pérez de Cuéllar y Giacomelli: visita clave para el programa antidrogas

Coca: Nuevo Capítulo

The UN Secretary General Javier Perez de Cuellar also supported transforming peasants in conflict zones into "valid interlocutors". He designated Giorgio Giacomelli, Executive Director of the UN[???] Drug Control Program to accompany Hernando de Soto to the UN.

The people who made the new agreement between the US and Peru possible: From left to right, US VP Dan Quayle, his Chief of Staff Bill Kristol, and Secretary of Defense Dick Cheney.

From left to right: Hernando de Soto, President Alberto Fujimori, President Bush, and White House National Security Advisor Brent Scowcroft.

COLUMN V
The triumph of the peasants and their inclusion in the rule of law

Finally, the peasants had been recognized as valid interlocutors. By the end of 1991, the DECAS had grown six-fold to a force of 120,000 armed men, who, together with 30,000 Peruvian soldiers, fought and defeated the Shining Path. By 1992, the death toll had fallen substantially, and the Shining Path was defeated as both a military force and a political option.

Counterinsurgency self-defense volunteers. Courtesy of Expreso newspaper.

The legitimacy of the peasants and their informal DECAS army were recognized in Peru at the national level through Legislative Decree 741, which allowed them to defend themselves under the strict supervision of the Armed Forces —as had been the case of local militias during the colonial period in the United States. The use of historical arguments was fundamental to gaining recognition from international community: twenty years before the War of Independence, George Washington was a general in the militia of Virginia; the legendary "Minutemen" of Massachusetts who waged the Battles of Lexington and Concord, initiating the War of Independence, were part of an effort to create a well-trained legal militia that was prepared to face the growing presence of British troops in the region.

Farmer receiving his property title, which also shows the location of the counter-insurgency bases. Courtesy of Caretas magazine.

Representatives of the 182 committees in conflict areas that the ILD convoked and took to the Government Palace to be the first to receive their property titles. Courtesy of Caretas magazine

Paradoxically, the first person to comprehend the power of international agreements and the re-categorization of the peasants was the Shining Path's leader, Abimael Guzman, who, in the organization's newspaper, El Diario, said that our written manuscripts "drive young people away from the popular war." Guzman also wrote in an official Shining Path strategy document ("Sobre las Dos Colinas: Documento de estudio -de SL- para el balance de la III Campaña, 1991") that the axis of the strategy against his group was Peru's Anti-Drug Agreement with the US, which, through international treaties and internal reforms, this "...targets the popular war and seeks to annihilate it (...). This has been conceived and implemented by Hernando de Soto, a direct agent of Yankee imperialism." (This is a distinction of which I was not worthy given the massive popular opposition of local communities to the Shining Path illustrated in this info-graphic).

The success of the ILD and the Peruvian Government in Washington and at the UN was not lost on Abimael Guzman who indicated in the Shining Path's communications that the re-categorized peasant forces "had become reactionary Armed Forces by mandate," and that the peasant's quick access to formal property rights — coupled with the subsequent capacity to guarantee access to credit and to businesses, foreign trade and participation in price setting — were "part of the effort to control the population and resources in a low-intensity war to mobilize the masses for their pacification plans... This means that the men and the arms are provided by the masses while they contribute nothing." The Shining Path leader admitted that the "problem can be expressed in terms of a turning point ... they have taken some areas and have pushed us out."

Expelled from the countryside, his forces on the run and surrendering, Guzman tried to organize his few remaining allies to detonate large amounts of explosives in Lima. His intention was not to conquer the territory but to demoralize the State. But the Shining Path found that even their informal agents in Lima were resistant to joining in these terrorist activities because they had been re-categorized through new formalization policies.

The Shining Path's violence did not cease immediately; peasants and informal miners continued to die. My colleagues and I at the ILD were attacked several times, the last via a Shining Path bomb of more than 300 kilos of dynamite and ANFO, which left several dead and injured. Luckily, the majority of us were unharmed.

Punishing the ILD. A Franciscan priest administers the the last rites to a victim of the Shining Path bombing of ILD headquarters. Source: La Republica newspaper.

ILD offices destroyed.

Hernando de Soto's car riddled with bullets. Source: Caretas magazine.

What Peru still does not understand to this day is that the peasants and informal miners rescued the country from the nightmare of a dictatorship by the Shining Path – at a price of tens of thousands of lives that have never been recognized. No museums, statues, or wailing walls have been built to honor what is indisputably the largest military reserve force against violence in Peruvian history.

This is not just about thanking them, salvaging the honor of the soldiers who died on behalf of the freedom of all Peruvian, or remembering the men in uniform who understood that violence is essentially a political rather than police or military matter. It is about remembering the heroism of the peasants so that the march toward Peru's industrialization is never interrupted again by conflict and the loss of so many lives. For this purpose, we must seek consensus to address the major conflicts that generate inequitable growth.

Breaking Economic Inertia 1987-

I The people could, but the doors were closed

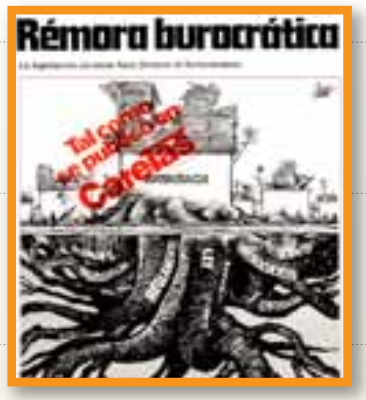
II Mechanisms created so that people can report which doors are closed

GDP PER CAPITA IN PERU (in 1990 US$)

$ 6,500
$ 6,000
$ 5,500
$ 5,000
$ 4,500
$ 4,162
$ 4,000
$ 3,500
$ 3,000
$ 2,500

CLOSED DOOR #1: Treating people as mere exploited workers and Latin American companies as ineffective closed the door on understanding informals as an entrepreneurial force.
ILO-PREALC: Informals are the proletarians and low-level technicians, who are unproductive, unemployed, and without a future, that peripheral capitalism in Latin America is unable to absorb.

CLOSED DOOR #2: Treating informality as a cultural incompatibility kept it from being seen as an entrepreneurial phenomenon.
Matos-Mar: The informal sector is the Andean radical opposition that strongly rebels against the formal sector.



OPEN DOOR #1: Informals were not "people without a future".
ILD: Informal dwellings were worth some US$70 billion (in 2013 dollars), which is equivalent to 12 times the value of the Camisea natural gas project. Their neighborhoods accounted for 43% of the housing in Lima and 47% of the population.

OPEN DOOR #2: Informals were not "marginal".
ILD: Informals accounted for 52% of industry, 90% of small businesses, and 93% of public transport. Some 90% of agricultural land was farmed by informals. They contributed 61% of total man-hours and generated 39% of GDP.

OPEN DOOR #3: Informals were not a problem.
ILD: Informals were, in fact, the solution. The problems: mercantilism; a legal system that had no social validity; and a political system unable to realize that if it weren't for the costs informals would be formal because they sense that the formal holder of a concession, the object, or the contract is the one who has the capital.

Government and ILD implemented Administrative Simplification Tribunal.
It gathered society's grievances through the press in order to deregulate, provide solutions, and monitor government's compliance. Every two weeks, the Head of State announced measures over the government television station on a four-hour program, which won a surprisingly large audience.

OPEN DOOR #4: The Andean sector was not incompatible with modernity.
ILD: Informals were not enemies of the "official way of doing things," but rather had the doors closed by regulations. They faced 300 days to register a business and 10 years to title a property.

OPEN DOOR #5: Informals began to re-categorize themselves.
ILD: The leftist Transport Drivers' Federation of Peru (with a fleet of 16,250 vehicles), led by Hernan Chang, abandoned their unionized view of things and acknowledged their entrepreneurial character, ending the big transport strikes crippling the city of Lima. Another 111 street vendors' associations, as well as thousands of businesses and shantytowns, did the same thing.

$ 2,986

ILD launched a communications campaign.
Showed how bad laws impose unnecessary costs and wastes of time on the majorities, forcing them into informality.

1987 1988 1989 1990

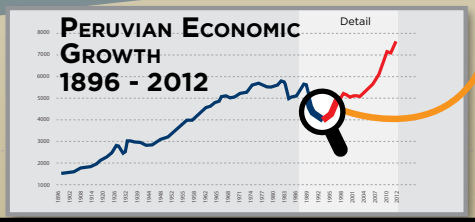
1993

III Opening the doors to the national market

The Administrative Simplification Tribunal facilitated 26 reforms that opened doors in virtually all areas of production.
These measures subsequently gave rise to a thousand laws and administrative decisions that included mechanisms to listen to the majority and to identify and promote economic inclusion: citizen control over authorities, the right to legislative initiatives, publication of laws for public scrutiny before enactment, public hearings and referenda, citizen access to public information, and an Ombudsman's office against economic exclusion.
All of these measures were offered during the first Garcia and Fujimori —in consultation with the great political leaders of the time: Barrantes, Bedoya, and Belaunde.

ILD launches formalization campaign.
One of the Simplification Tribunal's 26 reforms, the Unified Business Registry, was approved during the Garcia administration and then implemented by the next government. Between 1991 and 1994, the registry incorporated into the legal market some 388,000 informal businesses, which created 558,000 jobs, and allowed tax authorities to collect US$ 7.8 billion in taxes.

Informals wanted to be part of the formal sector.
300,000 bus owners belonging to the Transport Driver's Federation halted strikes when they were recognized as entrepreneurs by a law that eliminated controls on urban bus fares.



IV Opening the doors to the international financial system
(while doing the same to the domestic market)

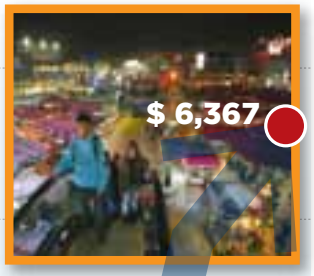

The New York Times
New Peru Leader Reaches Accord With the I.M.F.

July 1, 1990

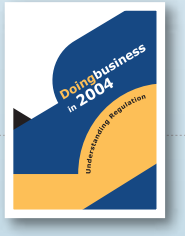
On July 2, 1990, Caretas magazine reported from New York on the first agreement between the IMF, World Bank, IDB, and Peru's president-elect Alberto Fujimori: the Peruvian proposal recognized that "the market economy does not work for the poor" and therefore the proposal had been designed on the needs of the "informal sector and the marginalized." That is why during the early years of reforms, for each adjustment measure the Ministry of Economy and Finance issued, the Government Palace implemented three measures in favor of the excluded.

A few days earlier...
On June 11, at the Hotel Crillon in Lima, Fujimori met with the IMF and presented his "no shock" proposal —designed by Adolfo Figueroa and the so-called "Seven Samurai" —against the drastic economic measures that the IMF typically mandates.
De Soto and the ILD offered a radical economic proposal, "economic shock," that the majorities in Peru would support. Fujimori had his doubts. De Soto consulted with Javier Perez de Cuellar (JPC) regarding the possibility of organizing a meeting with the heads of the IMF, the WB, and the IDB to help the president-elect choose one of two alternatives. JPC then organized a meeting where Fujimori chose the path set by the ILD (with advice from Carlos Rodriguez Pastor). trazado por el ILD (con asesoría de Carlos Rodríguez Pastor). trazado por el ILD (con asesoría de Carlos Rodríguez Pastor).

V The doors continue to open



The doors that were opened have allowed:
1. The precarious human settlements in the country to be transformed. The case of Northern Lima is exemplary. Between the late 1980s and today:
* The number of registered property titles has increased eight fold (from some 33,000 worth US$0.5 billion to 273,500 worth US$8.2 billion).
* According to preliminary estimates, reducing the number of required permits increased the number of legal businesses by at least 15 times to 84,600.
* More than 40% of the families in the area increased their income so that now they are considered middle class.
2. Nearly all of the laws giving access to property and business registries are governed by the reforms made during the war with the Shining Path.



"Doing Business".
ILD's seminal research on informality in Peru, which included the analysis and cost estimates of the administrative procedures required to do business there, revealed the legal barriers that informal entrepreneurs had to contend with, and inspired the creation of the World Bank's flagship program "Doing Business", launched in 2003.

1991 1992 1993 2003 2012

PART III
The Heroes that Won the War Against the Shining Path in Lima

It's worth repeating that the people who stayed in the rural areas of the country were eager to modernize their traditional modes of production – and the Shining Path communists punished them. Rural leaders decided to fight back; outgunned, their blood flowed.

The Shining Path used a different strategy in the cities: instead of attacking migrants militarily, it tried to convince intellectuals, students, and popular leaders that capitalist elites, intend on concentrating their power, were never going to let the informal sector inside "their wall." In addition, the insurgents argued that the market economy was against the culture and traditions of the majority of Peruvians; that the only way that Peru's Industrial Revolution could prosper in a just and equitable way was under the leadership of the Communist Party of Peru , also known as the Shining Path.

On the face of it, that argument was convincing. When migrants reached the cities, they did in fact meet with a hostile environment: the laws in force prevented them from easy access to the mainstream, legal economy; to survive, they had to create their own parallel, informal economy.

Under scrutiny, however, the Shining Path's theories did not square with the ILD's research on the ground. By interviewing informals and investigating how they did business and held their property, we discovered that they had already moved away from traditional modes of production. Far from opposing modern capitalism, they were an emerging entrepreneurial class eager to participate in the market system. They worked, and even started their own businesses but informally. The reason they were informal was that they had no alternative: the system had no doors for low-income people. They had to make their own doors. We found that the large majority of Peruvians were mired in the informal economy – and not because they were culturally unequipped for participating in Peru's legal market economy but because the legal system made it virtually impossible for them to gain entry into the mainstream.

That is why I confronted the Shining Path. Armed with the findings of our initial research into Peru's informal sector, which was far larger than existing government estimate , the ILD decided to find out where possible doors were located. We began looking at where the informal sector was "drilling" its own holes in the wall and found it proceeding slowly, haphazardly, and with much suffering. Our mission was to find the existing doors into the system, and build more where needed – and to recommend policy and legal reforms that would make it easier for the majority of Peruvians to enter the legal market in order to pull themselves – and Peru – out of poverty. Those doors from the informal economy into the formal one continue to open.

To make what was involved in our work easier to understand, I have described what we did to open and build doors that allowed millions of Peruvians to move from informality into the economic mainstream.

The info-graphic has been organized into five columns. The horizontal line measures time; the evolution of GDP per capita is shown on the vertical line.

COLUMN I
The Five Doors Opened To Allow The Entry of Migrants

The reason that nobody noticed that doors had to be opened in order for informals to enter the system was due to two diagnoses of informality that were very influential at the time. One was the point of view of the Latin American office of the International Labor Organization (ILO-PREALC), which classified informals as "proletarians and low-level technicians that were unproductive, unemployed, and with no future." According ILO-PREALC, those people did not need doors because they were not entrepreneurs.

The other interpretation of informality was proposed by the influential anthropologist José Matos Mar, which reduced informality to an ethno-cultural issue, -- i.e. a radical Andean rebellion against the "official" way of doing things, what Matos Mar called the "social circuit."

Source: Caretas magazine.

As different as both views were their effect was common: they made it difficult to see informals as a potentially significant entrepreneurial force in a country like Peru.

Consequently, the ILD's initial strategy was to battle these beliefs ideologically, through the publication of hundreds of articles and books that reached a level of sales never seen before; many of these publications were translated into more than 20 languages. This success on the intellectual front also inspired three successive governments (Fernando Belaunde, Alan Garcia and Alberto Fujimori) to give the ILD the mandate to produce regulations, legislation, and administrative manuals to start opening doors in the wall between informal and formal Peru. Most notable among these reforms were:

Open Door #1: We did serious damage to the myth that informals were unemployed proletarians, entrepreneurs with no future, and unable to grow in a market economy.

The ILD argued that informals were not an unproductive proletarian mass; we found plenty of evidence to the contrary – that the informal sector was brimming with entrepreneurs. Our research showed that between 1986 and 1989 informals had built and held 43% of housing, even in Lima, which represented buildings worth approximately US$70 billion (which is 12 times greater than the value of Peru's largest hydrocarbon undertaking, the Camisea gas project). Informal neighborhoods accounted for 43% of all Lima's housing – and 47% of the population

Open Door #2: We did away with the myth that informals were "marginal."

In fact, the opposite was true: formals were major contributors to Peru's economy. And the ILD laid out the facts and figures to prove this: informals accounted for 52% of industry, 90% of small businesses, and 93% of public transport. Approximately 90% of agricultural land was worked by informals. Their productivity was quite astounding – 61% of total man-hours and 39% of GDP.

Source: Caretas magazine.

Open Door #3: We largely put an end to the myth that informals were the problem. Instead, we showed that they could be the solution.

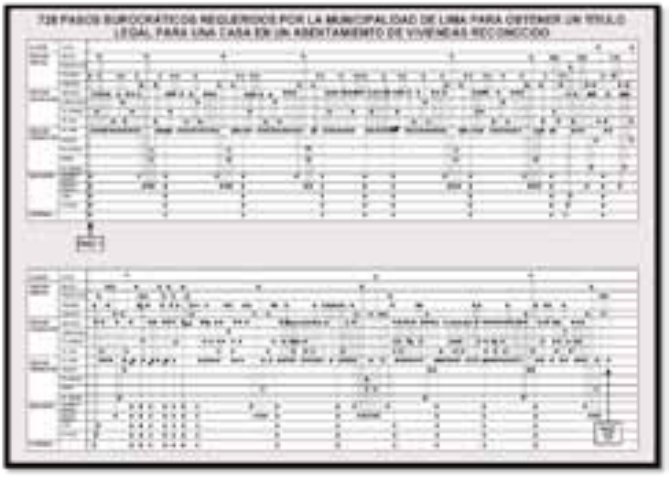
Using the figures from Open Doors #1 and #2, we showed that the informal sector had the potential to save the Peruvian economy, which was a basket case in the 1980s —informals were the largest source of employment, a giant consumer sector, and an alternative to violence. In sum, while the conventional political wisdom in Peru regarding informality was that it was the problem holding the country down, the ILD's data showed that the informal sector was the root of hope. Our research findings showed that Peru's real problems were: mercantilism (supply and demand of monopoly privileges using the state apparatus) and a legal system disconnected from the reality of the majority and therefore without social validity. The ILD revealed that Peru's political system had failed to understand that if it were not for the costs of formality, informals would be formal.

The steady progress of informals that our research documented showed that they were the future of the middle class – if they could gain access to the formal market, as had happened in North America and Europe in the 19th Century and as we were witnessing in urban Peru. ILD's data, along with its re-categorization of the country's poor majority and the debates it promoted through television and radio, had such an impact that every political movement in the country began to take into account the interests of informals. The result was a drive for creating small businesses, and becoming entrepreneurs emerged for the first time as a popular vocation in Peru.

Cover of "The Other Path" (ILD) .

Open Door #4: We demolished the myth that the Andean sector was "incompatible with modernity."

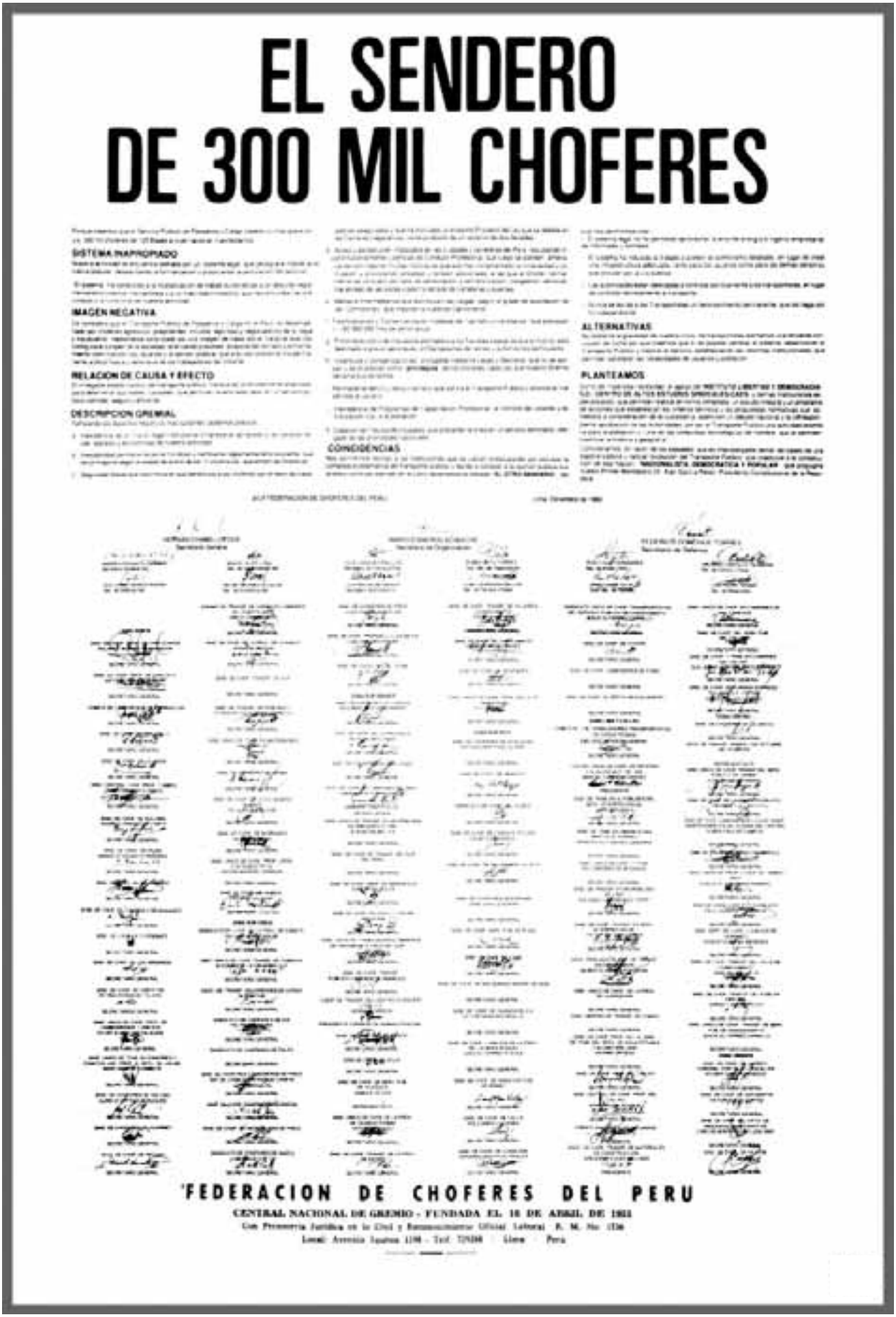
The ILD put teams of economists and lawyers to work on simulations and case studies. Their findings revealed that informals were not enemies of "formal ways of doing things." Their enemies were simply the regulations that had made it so difficult to enter the formal economy —e.g. 300 days to register a company and more than ten years to title a piece of property. In the fact of such daunting obstacles, it was virtually impossible for informals, no matter their talents or ambitions, to become formal and do business.



It took more than ten years to title a property, complying with Peru's legal system.

Open Door #5: Informals began to re-categorize themselves

The leftist Federation of Transport Drivers of Peru (with a fleet of 16,250 vehicles), led by Hernan Chang, decided to take ILD's "other path" away from violence and toward legal reform. The federation re-categorized itself from being simply another labor union into a group of entrepreneurs. The immediate result: ending the number of large transport strikes that had paralyzed Lima. Following the Transport Drivers' lead were 111 street vendors organizations and thousands of businesses and shantytowns who also embraced the ILD's "other path" away from the Shining Path's communist alternative and the label of "entrepreneur."



EL SENDERO DE 300 MIL CHOFERES

SISTEMA INAPROPIADO

IMAGEN NEGATIVA

RELACION DE CAUSA Y EFECTO

DESCRIPCION GREMIAL

COINCIDENCIAS

ALTERNATIVAS

PLANTEAMOS

FEDERACION DE CHOFERES DEL PERU

CENTRAL NACIONAL DE GREMIO - FUNDADA EL 18 DE ABRIL DE 1951

The Federation of Transport Drivers of Peru (FECHOP) distances itself from communism and instead follows the Other Path.

111 DIRIGENTES DE ORGANIZACIONES DE EMPRESARIOS TRABAJADORES AMBULANTES EXPRESAN SU DESACUERDO CON LA ORDENANZA 002

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Carlos Alberto Pérez H.	V.A. Pabellón "R-2" POLVOS AZULES	Sec. General
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Wilmer Gonzales Delgado	V.A. 2da. CUADRA AV. AVIACION	
Teobaldo Salvador Quispe	V.A. 11a CUADRA DE HUMBOLDT	
Grimaldo Sulca Vega	COMITE 4ta. CUADRA AV. AVIACION	Delegado
Hugo Cruz Chuschi	V.A. CUADRA 27, AV. 28 DE JULIO (ARTESANIA)	Delegado
Angel Mendoza Caballero	AV. AVIACION - B - TACORA	Sec. "SIDETRAR"
Pablo Ramos Alfaro	COOPERATIVA RAMON CASTILLA	Vice-Presidente

AVISO AUSPICIADO POR EL INSTITUTO LIBERTAD Y DEMOCRACIA (ILD)

Street vendors leaders protesting against Ordinance 002 and requesting formalization as proposed by the ILD.

COLUMN II
Mechanisms Created So That Citizens Could Report What Doors Were Closed

Between 1988 and 1993, measures were taken to allow Peruvian majorities to move from the informal to the formal sector, and mechanisms were created to facilitate citizen participation in government decision-making.

In 1989, Peru's Congress unanimously approved Administrative Simplification Law (Law 25035) – designed by the ILD to reduce the costs and requirements of regulatory compliance, make authorizations and licensing more efficient and rational, and involve citizens in the control and application of the law itself. The law and its regulations contained a number of simplifying mechanisms derived from four basic principles for making public administration more effective: taking citizen statements at face value thereby allowing automatic authorizations subject to subsequent controls; eliminating unnecessary and costly requirements, pre-requisites, or formalities; de-concentrating routine decisions to second or third level officials; and, above all, incorporating users —who are the ones who really know where the bottlenecks are in the application of simplification and can provide feedback.

ILD report explaining the strategy to unleash Peru's potential, published in Caretas magazine.

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To facilitate the new law's implementation, the government launched a program called the Administrative Simplification Tribunal, which was responsible for gathering grievances from citizens regarding excessive regulations and public employee abuses —and publicizing them through the press— in order to provide solutions and to monitor compliance with government simplification measures. President Alan Garcia, and I appeared on state television every two weeks to announce new measures to simplify procedures in the public sector. Each of the Head of State's presentations lasted up to four hours and obtained an impressively high rating (14 points on average).

Finally, a Peruvian government listened to the voices of all the people and brought down the legal barriers whose detrimental effects on economic development had not been properly evaluated until then. This led to the creation of 1,000 laws and administrative decisions.

Administrative Simplification Tribunal hearing where public grievances were received.

COLUMN III
Opening the doors to the national market

The reforms carried out included mechanisms to listen to the majority of Peruvians and to identify and promote economic inclusion: citizen control of authorities, the right to create legislative initiatives, the publication of laws for public scrutiny prior to their enactment, public hearings and referenda, citizen access to public information, and a new office of "Ombudsman" to prevent economic exclusion.

The Administrative Simplification Law alone led to 26 reforms that opened doors in virtually the entire pro-

duction sector. These measures later led to the creation of a thousand laws and administrative decisions.

Hundreds of laws simplifying administration in Peru between 1988 and 1989. According to the press, it was the most successful project during Alan Garcia's government.

Yet another of these measures, the Unified Business Registry, incorporated into the legal economy some 388,000 informal businesses, which created 558,000 jobs and enabled the Treasury to collect US$7.8 billion in taxes between 1991 and 1994. The time required to create and register a business in the city dropped from 278 days to one; and the cost to do so was reduced by 85%. The reform was so successful that the World Bank incorporated the idea into its flagship program "Doing Business."

Another important reform to facilitate the poor's access to the market was the formalization of informal property. In the 80s, close to 50% of all households and more than 90% of rural lands were informal.

The value of these assets exceeded US$70 billion but could not be used to generate wealth or gain access to credit or basic services, such as electricity and water.

Ad in Peru's press explaining the Entrepreneur Unified Registry that allowed the formalization of 400,000 informal business.

The Peruvian government signed a technical cooperation agreement with the ILD, which began in 1988 with the enactment of Legislative Decrees 495 and 496 creating the Property Registry (RP) system with the mission of establishing simplified and low-cost institutional mechanisms for the formalization, registration, and economic use of property in shantytowns and human settlements.

In 1991, President Fujimori, with ILD's advice, extended the system to agricultural areas through Legislative Decree 667 and the creation of the Rural Property Registry. In 1994, the National Superintendent of Public Registries (SUNARP) was created in order to unify and modernize all public registries —scattered throughout various institutions— as well as standardize registration laws, procedures, and techniques.

This program to modernize property registration in Peru, the implementation of which was initially entrusted to the ILD, did earn the opposition of the Shin-

ing Path on several occasions, but these confrontations were circumvented through the strong and organized support of the local population, which preferred the protection of a legal property title to the pseudo-protection of their homes offered by the terrorists. For example, in Huaycán, which during those years was deemed a "red zone" (i.e. an area controlled by the Shining Path, the initiation of the formalization campaign set to begin at 9 a.m. had to be postponed until 2 p.m. while neighborhood leaders convinced Shining Path members that the people wanted their titles. Fortunately, the registration program bore fruit right from the start: in its first two years 110,000 properties were formalized at a cost 950 times lower than that of Brazil's, a world record.

Thanks to all of these measures, since the late 1980s, the number of property titles in the densely populated shantytowns of Northern Lima have increased eightfold —from approximately 33,000 properties valued at US$ 0.5 billion to 273,500 valued at US$8.2 billion. The reduction in the number of required permits has led to the creation of 15 times more legal firms: 84,600. And 40% of the households in the area have increased their income enough to be considered "middle class".

The government's success at registering informal property indicated that informals wanted to be part of the "official way of doing things." I believe this was clearly demonstrated by the 300,000 bus owners of the Federation of Transport Drivers of Peru, who suspended strikes as soon as they were recognized as entrepreneurs by a new law that eliminated government control of urban bus fares.

Abimael Guzman found this out firsthand when he came to Lima, and was shocked to discover that very pool of potential urban recruits from such leftist organizations as the Transport Drivers or among informal street vendors or those the ILO had deemed "unemployed, unproductive and with no future" were being re-categorized out of the reach of the classic neighborhood, worker, and laborer movements the Shining Path had created to fan the flames of discontent.

These reforms took place during the first governments of Fujimori and Garcia, neither of which at the time was politically committed to a market economy. In fact, they both campaigned for the presidency on progressive or socialistplatforms. What happened? Did they and their economic advisors suddenly discover Adam Smith or embrace the ideas of Bastiat, the brilliant nineteenth-century French economist revered by free market fans? Not at all. What happened was much simpler – and politically expedient: once informals were re-categorized as emerging entrepreneurs and future members of the middle class, politicians saw a new and potentially massive number of voters – and set out find ways to address their newfound expectations.

Not did the rest of Peru suddenly embrace classical free market liberals, but the bloody war against the Shining Path did force Peruvians at every level of society to recognize that the status quo was untenable – and that the communist scenario envisioned by Abimael Guzman and his loyalists was terrifying. For some time, Peruvians had seen that our country was made up of small or big entrepreneurs, in large trading houses or pushing carts, with stamped or unstamped papers. But when we realized that all of our neighbors shared the same categories —that we could all play the game using the same transparent rules, with all the information on the table— the desire for change became contagious and irresistible. The ILD helped the government design the appropriate reforms and get them quickly into place.

COLUMN IV
Opening the Doors to the International Financial System (as well as to that of the national market)

Peru's historic economic debacle reached its nadir in 1990, when hyperinflation rose to 7,600%, and the Gross Domestic Product (GDP) fell 13.4%; the country's foreign exchange reserves were negative, the Fiscal Fund had no funds to pay public employees; there was a shortage of basic necessities and medicines; and public services had collapsed. Meantime terrorism was spreading across the country, 60 percent of which the country was under a state of emergency.

Faced with a situation that made it impossible to win the war on terrorism, they ILD concluded that the only recourse was to attempt to stabilize the economy through tough economic adjustment measures that included bringing prices to their true levels. Such reforms, however would require outside assistance —since Peru had no resources to finance their implementation.

We conceived a two-front strategy: building an internal political consensus that supported the necessary economic adjustment and reforms, while simultaneously reintegrating Peru into the international financial system, by getting leaders to commit to implementing reforms. First, however, we had to convince President Fujimori, who was adamantly – and publicly – opposed to making the adjustment.

To this end, I contacted the United Nations Secretary General , Javier Perez de Cuellar, through my brother Alvaro, who was his executive director. I raised the possibility of a joint meeting in Washington between President Fujimori and the heads of the International Monetary Fund, Michel Camdessus , the World Bank Barber Conable, and the Inter-American Development Bank, Enrique Iglesias. The idea was for them to help

the President to choose one of the two alternatives he was considering: an immediate economic adjustment, a "shock," stabilization program or a gradual adjustment without any "shocks". The three were convinced that bailing out Peru's economy was a matter of hemispheric security and the survival of a democratic country under attack by a communist insurgency. They recognized that Peru could not win without international support.

On June 30, 1990, the three officials met with President Fujimori and me, assuring us that they were willing to help Peru out of its financial isolation and severe economic crisis. That night, Peru's president chose to take the medicine that he had said he would never take since his campaign for the presidency – the "shock" stabilization measures and economic reforms.

The next day, The New York Times ran a front-page article about Fujimori's deal with the IMF headlined: "New leader of Peru In Accord on Debt." Two days later, the New York correspondent for Peru's weekly newsmagazine Caretas reported that the Peruvian proposal to the International Monetary Fund (which I personally made to the IMF managing director) stated "the market economy does not work for the poor" in Peru, which was why the government's proposal to the IMF had been designed with the needs of the "informal sector and marginalized populations" in mind.

The New York Times

New Peru Leader Reaches Accord With the I.M.F.

The New York Times' front page on 1 July 1990 announcing Peru's agreement with the IMF

That proposal also included a commitment that, as economic reforms were rolled out, for each adjustment measure approved by the Ministry of Economy and Finance (MEF), the President would approve three measures in favor of the excluded. The IMF accepted the proposal, which, in effect, brought Peru back into the international financial system.

This is one of the main reasons that the structural adjustment program in Peru worked so well: recognizing that the tough economic corrections underway were for their benefit, ordinary citizens supported the adjustments. Any transition to a free economy is essentially a political task. Peruvians received the message from the highest level of government —not from the Finance Minister, but the President himself. Historically, the transition to a market economy – in any country – requires major change, and making such changes is a political issue, as demonstrated by the US Founding Fathers, or Abraham Lincoln's economic reforms during the Civil War, or General MacArthur's territorial reforms in post-war Japan, or Deng Xiaoping's market reforms in China.

With that tough and traumatic decision, Peru, which had made continuous and unpopular economic adjustments for decades that failed to grow the economy equitably, would no longer need to make further adjustments. With the new legal reforms underway to give informals a stake in the formal market economy and with Peru back in the international financial markets, Peru's economy began to stabilize – and then takeoff to become the fastest growing economy in Latin America– It was the greatest achievement of our republican history: record sustained economic growth and the reduction of poverty and inequality.

COLUMN V
The Doors Continue Opening

This narrative covers only the period up to 1992, when it was obvious that the Shining Path had finally been defeated by courageous and heroic farmers in the countryside, where the bloodiest battles of the war on terror were fought and 98% of the 70,000 Peruvians who died fell. That same year, isolated and without a single guard from his army to defend him, the Shining Path's leader Abimael Guzman was finally captured in Lima as the result of brilliant police work.

The ILD, however, continued writing its history —inside and outside of Peru . Our success in Peru promoting, designing and implementing legal reforms to bring the informal sector into the economic mainstream did not go unnoticed, and it was not long before we began receiving invitations to help other reform-minded governments around the developing world deal with their own massive informal economies.

INTERNATIONAL RECOGNITION OF HERNANDO DE SOTO and THE ILD

INTELLECTUAL RANKING

• **The Institute for Liberty and Democracy** (**ILD**), whose President is Hernando de Soto, has been considered by ***The Economist*** as one of the two most important think tanks in the world. ***Time*** magazine chose Mr. de Soto as one of the five leading Latin American innovators.
• ***Time*** magazine also included him among the 100 most influential people in the world.
• ***Forbes*** magazine listed him as one of 15 innovators "who will reinvent the future."
• ***Entwicklung und Zusammenarbeit***, the most important German economic development magazine, considered him as one of the most important development theoreticians of the last millennium.
• In the **World Economic Forum** In the World Economic Forum in Davos, former US President Bill Clinton described him as "the world's most important living economist".
• Over 20,000 readers of ***Prospect*** magazine of the UK and ***Foreign Policy*** of the United States.
• The German financial newspaper ***Handelsblatt*** included him in its list of the 25 most important thinkers of our time.
• The work ***The Twelve Most Important Economists in the World (Die Welt der zwölf Wichtigsten Ökonomen)***, included him in a list that starts with Adam Smith and ends with the Nobel Prize holder Joseph Stiglitz.
• He was named one of the "Icons and Legends" of Latin America by the organization that created the Latin American ***Innovative American's Award.***

AWARDS

• **Medal of the Presidency of the Italian Cabinet** (**Council of Ministers**) by the International Scientific Committee of the Pio Manzu Centre in Italy, chaired by former President of the Russian Communist Party, Mikhail Gorbachev. • **Medalla Hayek** por Friedrich A. von Hayek-Gesellschaft, fundación en Berlín.
• **Miembro Honorario de la Sociedad Filosófica Universitaria** • The Hayek Medal by the Friedrich A. von Hayek-Gesellschaft foundation in Berlin.
• **Honorary Member** of the University Philosophical Society of Trinity College in Ireland.
• The **Hernando de Soto Award for Democracy** by the Center for International Private Enterprise (CIPE) of the Chamber of Commerce of the United States
• The **PODER-BCG BUSINESS AWARD** established by the Latin American business magazine Poder and the Boston Consulting Group for the "Best Anti-Poverty Initiative".
• The **Humanitarian Award** by Project Concern International.
• The **Bradley Prize** awarded by the Bradley Foundation.
• The Economist's **Innovation Award** in the category of Social and Economic Innovation.
• Elected one of the **Most Outstanding Peruvians of 2004** by the National Assembly of Rectors.
• **Honorary Degree of Doctor of Letters** from the University of Buckingham (UK).
• The Americas Award from The Americas Foundation Inc. (USA).
• **The German Foundation for Property** (**Deutsche Stiftung Eigentum**) **Prize** for his exceptional contributions to the theory of property rights.
• **The Golden Plate Award** from the Academy of Success (USA), which was presented by the director and producer of the movie Star Wars, George Lucas.
• The Bearing Point and Forbes magazine **Compass Award** for Strategic Direction.
• **The Templeton Award for Freedom** (**USA).**
• **The Milton Friedman Prize** (USA).
• The Royal Decoration of the **Most Admirable Order of the Direkgunabhorn**, 5th Class of the King of Thailand.
• Yale University's **Downey Fellowship.**
• **The Goldwater Award** (USA).
• **The Adam Smith Award** from the Association of Private Enterprise Education (USA).
• **The CARE Canada Award.**
• **The Freedom Prize Peace Prize** awarded by President Villiger of Switzerland.
• **The Fisher Prize** (UK).