



Center for International Private Enterprise

## Democratic Governance and Economic Growth

# Impact in Peru

### Strengthening Democracy Through Property Rights and Rule of Law

Over the past two decades, the Institute for Liberty and Democracy (ILD) in Peru has developed a unique and innovative property rights and business reform program that helps to build democratic and sustainable market economies. The ILD's program helps governments of developing countries bring their poor majorities – along with their extralegal enterprises and properties – into the formal economy and the rule of law.

This groundbreaking approach made it possible for the ILD to help defeat the Shining Path terrorist movement in Peru and the guerrilla movement in El Salvador. The Shining Path's own newspaper, *El Diario*, declared that the ILD's methods hindered recruitment efforts and weakened popular support for the terrorist cause.



*Hernando de Soto, ILD President*

#### Impact on Reform: Institute for Liberty and Democracy

Between 1982 and 1996, with the support from the United States Agency for International Development (USAID), CIPE, and the Peruvian Government, the ILD created a program to bring the poor in Peru from the extralegal economy into the formal economy. As a result, Peruvian society has received \$18.4 billion in net benefits between 1992 and 2007.

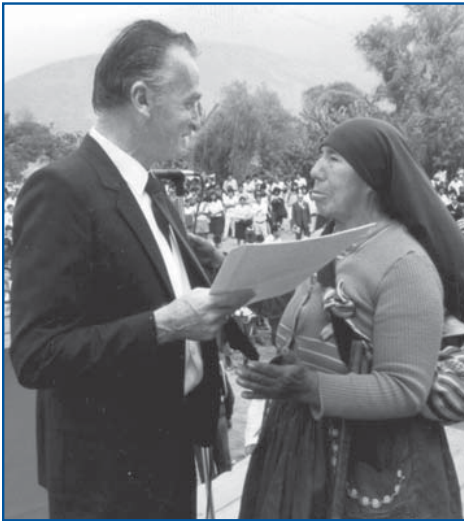
#### Benefits generated by the formalization program between 1992 and 2007:

- 8.5 million Peruvians below the poverty line now legally own their real estate assets (*COFOPRI and ILD*)
- 1.7 million urban real estate assets have been formalized between 1991 and 2007 (*COFOPRI and ILD*)
- The net value of these urban real estate assets has increased by \$2.9 billion (*World Bank and ILD*)
- Formalized urban real estate owners have obtained \$852 million in loans (*COFOPRI and ILD*)
- Formalized urban owners have saved some \$196 million in red tape costs (*COFOPRI and ILD*)
- 382,100 businesses belonging mainly to the poor were formalized (*ILD*)
- Newly formalized businesses created 554,000 new legal jobs and paid \$7.8 billion in additional taxes (*ILD*)
- Child labor has been reduced by 28% among formalized urban property owners (*Princeton University*)
- The macroeconomic policies and 200 other reforms initiated by the ILD raised Peru's growth rate to nearly 14% by 1994 and brought down inflation from 7,605% in 1990 to 10% in 1995 (*IMF and ILD*)
- The ILD provided the military with a strategy that allowed the army to gain the trust of informal farmers to beat terrorism on the ground (*General Jaime Salinas Sedó, Commander in Chief of Peru's Anti Subversive Operations*)
- The ILD helped farmers reduce coca production and thus helped them defeat terrorism in rural areas (*Hugo Huillca, General Coordinator of Self Defense Militias in Ayacucho*)

## The ILD has become an internationally respected think tank that has transformed the development agenda.

Thirty-five heads of state have requested ILD services, and the ILD now has 20 projects underway to move countries towards inclusive modern market economies under the rule of law. To assist so many countries at once, the ILD has developed a training program to teach others how to integrate the extralegal and legal sectors of their countries.

International institutions are also introducing the ILD vision and systems into their agendas. The ILD has reached an agreement with the Inter-American Development Bank (Building Opportunities for the Majority), and its ideas are being integrated into the work of the United Nations through the Commission on Legal Empowerment of the Poor. The General Counsel of the World Bank has also been developing a “Legal Empowerment of the Poor Program” based on the work of the ILD. NATO, too, has sought the ILD’s assistance.



A woman receives a title to her home at a public ceremony in Peru.

*“...the market economy... is essential to democracy and the fight against poverty.”*

*~ Hernando de Soto,  
President, ILD*

## The Institute for Liberty and Democracy

A non-profit organization based in Lima, Peru, the Institute for Liberty and Democracy (ILD) is an internationally respected think tank that has emerged not just as an intellectual force in the field of development but also as an agent of change in the developing and post-Soviet world in the effort to move the assets of the poor from the extralegal economy into an inclusive market economy.

Many legal systems exclude ordinary citizens from the very legal institutions that should empower them. Forced to function outside the rule of law, they have no legal identity, no legal property, no legal businesses – and thus no credit, no capital, and no way to prosper. In order to do business, poor entrepreneurs create a parallel economy with its own rules and practices that are full of shortcomings that not only breed more poverty but also frustration and social unrest.

At the core of the ILD vision is the concept of “extralegality” – that ordinary, mostly poor property owners and entrepreneurs remain marginalized as long as they are deprived of three legal institutions essential for the creation of wealth:

- Fungible property rights to maximize the economic use of assets
- Organizational forms to increase the productivity of enterprises
- Identity devices to allow entrepreneurs to operate in expanded markets

The ILD provides technical assistance to help governments furnish their citizens with these fundamental legal tools to participate in both local and international markets.

