



attacking poverty

a market approach

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UNIVERSIDAD DEL PACÍFICO
CENTRO DE INVESTIGACIÓN

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United States Agency for
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International Development Research Centre
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Table of Contents

<i>List of Figures</i>	V
<i>List of Tables</i>	VII
<i>Abbreviations</i>	IX
<i>Acknowledgements</i>	XI
<i>Summary</i>	1
I. Introduction	17
1.1 Framework for Thinking About Poverty	17
1.2 Origin of This Document	20
1.3 Organization of This Document	21
1.4 A Primer on Food Security	22
II. Definition of Peru's Food Security Problems	29
2.1 Food Availability	29
2.2 Food Access	36
2.3 Food Utilization and Malnutrition	51
III. Potential Magnitude and Characteristics of Poverty in the Future	67
3.1 Overall Demographic Trends	67
3.2 Geographic Dimensions of Poverty	73
3.3 Implications of Past and Current Rates of Urbanization for Poverty and Extreme Poverty	75

IV. Constraints to Attacking Poverty and Food Insecurity	79
4.1 Economic Policy Constraints	80
4.2 Social, Political, and Institutional Constraints	89
4.3 Productive Sector Constraints	93
4.3.1 Non-agricultural Productive Sectors	93
4.3.2 Agricultural Productive Sector	99
4.4 Social Sector Constraints Affecting Poverty and Food Insecurity	116
V. Strategic Approaches for Attacking Poverty and Food Insecurity	145
5.1 Major Findings and Conclusions	146
5.2 Vision of Peru in 2010	149
5.3 Principles for Setting Priorities to Attack Poverty	152
5.4 Recommended Policies and Program Actions to Attack Poverty and Food Insecurity	166
References	175

List of Figures

0.1	Changes in Economic Growth, Poverty, Child Mortality and Malnutrition in Peru (Summary)	4
1.1	Conceptual Model for Attacking Poverty	18
1.2	Illustrative Food Security Conceptual Framework	27
2.1	Trends in <i>Per Capita</i> Income (1964-1998)	29
2.2	Trends in Supplies of Calories per Person per Day (1961-1999)	31
2.3	Composition of the Peruvian Diet (1997-1998)	31
2.4	Trends in Food Production (1961-2000)	32
2.5	Trends in Grain Production (1961-2000)	33
2.6	Trends in Food Imports and Exports (1961-1999)	34
2.7	Trends in Grain Imports (1961-1999)	34
2.8	Trends in Grain Production and Imports (1961-1999) ..	35
2.9	Changes in Grain Import Dependency	36
2.10	Trends in Grain Imports - Totals and Donations (1970-1999)	36
2.11	Poverty in Peru in 2000	38
2.12	Changes in Poverty During the 1990s	39
2.13	Changes in Extreme Poverty During the 1990s	40
2.14	Distribution of the Extremely Poor in 2000	41
2.15	Distribution of the Other Poor in 2000	41
2.16	Incidence of Poverty in 2000 by Urban-Rural Location ..	42
2.17	Incidence of Poverty in 2000 by Geographic Region ...	42
2.18	Ethnicity and Poverty in 2000	45
2.19	Percentage of Population with Unsatisfied Basic Needs ..	48
2.20	Distribution of Population with Unsatisfied Basic Needs by Urban-Rural Location in 2000	49
2.21	Percentage of Population with Unsatisfied Basic Needs (1997 and 2000)	49
2.22	Distribution of Population with Unsatisfied Basic Needs by Region in 2000	50
2.23	The Prevalence of Malnutrition Among Children Under Five in 2000	53

2.24	Changes Over Time in the Prevalence of Chronic Malnutrition in Children Under Five	53
2.25	The Prevalence of Chronic Malnutrition by Urban-Rural Location in 2000	54
2.26	Changes Over Time in the Prevalence of Chronic Malnutrition by Urban-Rural Location	55
2.27	The Prevalence of Chronic Malnutrition by Region in 2000	55
2.28	Distribution of Chronically Malnourished Children in 2000	56
2.29	Changes Over Time in the Prevalence of Chronic Malnutrition by Geographic Location	57
2.1	(Map) The Prevalence of Chronic Malnutrition Among Children Under Five by Department in 2000	58
2.30	Prevalence of Chronic Malnutrition by Age of Child	59
2.31	Prevalence of Chronic Malnutrition by Education of Mother	61
4.1	Yields of Principal Foodstuff Crops (1990-1999)	104
4.2	Donations of Cereals (1980-1998)	122
4.3	Distribution of Social Sector Expenditures in 1999	129
4.4	Educational Attainment Profile (Male-Female) in 1996, Ages 15-19	141
4.5	Educational Attainment Profile (Urban-Rural) in 1996, Ages 15-19	142
4.6	Educational Attainment Profile (Richest-Poorest) in 1996, Ages 15-19	142
5.1	Changes in Economic Growth, Poverty, Child Mortality and Malnutrition in Peru	148

List of Tables

0.1	Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital (summary)	9
0.2	Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Human Capital (summary)	12
0.3	Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Social Spending and Policy (summary)	14
2.1	Changes in the Percentages of Poor and Extremely Poor by Urban-Rural Location During the 1990s	43
2.2	Changes in the Number of Poor and Extremely Poor by Urban-Rural Location During the 1990s	43
2.3	Changes in the Percentages and Numbers of the Poor and Extremely Poor Living in the Sierra During the 1990s	44
2.4	Poverty Risks of Selected Groups/Factors – More or Less Likely to Be Poor	46
2.5	Distribution of New Access to Basic Services in Rural Areas, by Language (1994-1997)	51
2.6	Prevalence of Chronic Malnutrition Among Children Under Five in 2000 and Changes Between 1996 and 2000	57
2.7	Prevalence of Chronic Malnutrition Among Children Under Five in Poor and Non-Poor Households in 2000	62
2.8	Determinants of Chronic Malnutrition Among Children Less Than Three Years of Age	63
3.1	Population Age Groups by Poverty Level (1991-1992)	70
3.2	Fertility by Educational Level (1990-1999)	73
3.3	People Living in Urban and Rural Areas	73
3.4	Urban and Rural Population Age Structure (1999)	74

4.1	Evolution of Urban Employment Quality in Terms of Monthly Income (1991 and 1997)	85
4.2	Principal Agricultural Exports (1990-1999)	103
4.3	A Summary of Peru's Food Programs and Program Financing and Beneficiaries (1998)	119
4.4	A Comparison of the Nutritional Content of the Rations Provided by Selected Public and Private Sector Institutions Through Food Assistance Programs ..	121
4.5	Trends in Total Government Expenditures on Social Sector Programs	130
4.6	Trends in Public Sector Spending on Health and Education Between 1970 and 1998	130
4.7	Distribution of Social Sector Expenditures by Income Class (1996)	131
4.8	Distribution of Public Expenditures on Education by Levels of Education and Income Class (1997)	132
4.9	Distribution of the Benefits of Peru's Food Assistance Programs (1997)	133
4.10	Distribution of Malnourished Children and Distribution of Food Transfers (1997)	134
4.11	An Analysis of the Beneficiaries of Peru's Food Programs (1997)	135
4.12	Health Sector Infrastructure (1996)	137
4.13	Health Sector Staff (1996)	137
4.14	Use of Health Care (1997)	138
4.15	Measures of School Performance	143
4.16	Educational Premia in Urban Peru in 1991 and 1996 ...	144
5.1	Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital	168
5.2	Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Human Capital	171
5.3	Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Social Spending and Policy	173

Abbreviations

ADRA	Adventist Development and Relief Agency International
AMIDEP	Multidisciplinary Association for Research and Teaching on Population
ATG&T	Agricultural technology generation and transfer system
CAF	Andean Development Corporation
CARE	Cooperative for Assistance and Relief Everywhere, Inc.
CARITAS	Peruvian Catholic Church relief and development agency
CCPP	Puno Chamber of Commerce and Production
CENAN	National Food and Nutrition Center
CEPES	Peruvian Center for Social Studies
CEPRI	Special Commission for Promotion of Private Investment in Irrigation
CIAS	Inter-Ministerial Council for Social Affairs
CIED	Center for Research, Education, and Development
CIPCA	Center for Campesino Research and Promotion
CIUP	Research Center of the Universidad del Pacifico
CLAS	Local Health Administration Committees
CONAPO	National Population Council
CONFIEP	Confederation of Private Business Institutions
ENACE	National Building Enterprise
ENAHO	National Household Survey
ENDES	Demographic and Family Health Survey
ENNIV	National Household Living Standards Measurement Survey
FAO	Food and Agriculture Organization of the United Nations
FONAVI	National Housing Fund
FONCODES	National Social Compensation and Development Fund
GDP	Gross domestic product
GRADE	Development Analysis Group
ICN	International Conference on Nutrition
IDB	Inter-American Development Bank
IDRC	International Development Research Centre of Canada
ILO	International Labour Organization
INADE	National Development Institute
INAN	National Health and Nutrition Institute
INCAGRO	Innovation and Competitiveness for Peruvian Agriculture
INEI	National Statistics and Information Institute

INFES	National Education and Health Infrastructure Institute
IPSS	Social Security Institute of Peru
KUSIAYLLU	Happy Community (health and nutrition program)
LIFDC	Low-income food-deficit country
MEF	Ministry of Economy and Finance
MINSA	Ministry of Health
NGO	Nongovernmental organization
NIÑOS	Nutrition program implemented by CARE
PACFO	Complementary Food Program for High-Risk Groups
PAHO	Pan-American Health Organization
PANFAR	Nutritional Food Program for High-Risk Families
PANTBC	Food and Nutrition Program for Ambulatory Tuberculosis Patients
PAR	Resettlement Support Program
PRA	USAID Poverty Reduction and Alleviation project
PRISMA	Information, Health, Medicine, and Agriculture project
PRODESA	Food Security Development Program
PROJOVEN	Youth Labor Training Program
PROMARN	Food and Nutrition Program for Children Abandoned and at Nutritional Risk
PROMUDEH	Ministry for Promotion of Women and Human Development
PRONAA	National Food Assistance Program
PRONAMACHS	National Watershed Management and Soil Conservation Program
PRONEI	Non-School Initial Education Programs
SENATI	National Industrial Training Service
TECSUP	Higher Technology Institute
USAID	United States Agency for International Development
WINAY	Health and nutrition program implemented by CARITAS

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In early 2000, USAID/Peru and Canada's International Development Research Centre requested Chemonics International Inc., under the USAID-financed Poverty Reduction and Alleviation (PRA) Activity, and the Research Center of the Universidad del Pacifico (CIUP), under a grant from IDRC, to prepare an update on the nature and scope of food insecurity in Peru and to recommend appropriate policy and program responses for the Government of Peru (GOP), nongovernmental organizations, and the donor community. This document, which is the outgrowth of that initiative, concludes that Peru's food insecurity has its roots in poverty. Hence the title.

The conceptual and programmatic sweep of the task, together with the ever-changing political landscape over the last two years, has made the preparation of this document an exciting endeavor. The very breadth of the charge, however, has made the authors painfully aware of how lightly they have touched on a number of topics, of the fragility of the empirical foundation for some conclusions, and, in general, of how much they still do not know. On the other hand, the team is encouraged by the consistency of the strategic directions that have emerged, and believes that the directions constitute a compelling policy and programmatic package for the future. Just before this document went to press, new data on the severity of poverty in Peru became available. The new data suggest strongly that the situation has become worse than that portrayed in the text, thus making the recommendations laid out here even more topical than before.

The authors are indebted to a broad range of institutions and individuals for their openness, collaboration, and guidance during the preparation of the strategy. Although it is impossible to name each one here, the team owes all a profound intellectual debt and wants to express how much their contributions are appreciated. Institutionally, the team wishes to acknowledge explicitly both the financial support and the programmatic interest of USAID and IDRC.

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Summary

Poverty is one of Peru's most pressing problems, and attacking it successfully is arguably its most arduous challenge. The inability of the country to create quality jobs in the last few years has brought vast segments of Peruvian society to the brink of desperation. The perception is widespread: something – perhaps something radically different – must be done.

This document lays out a framework for thinking through appropriate responses to Peru's poverty. It starts from the premise that government cannot do it all, that ultimately market forces must get the job done. From this premise, it traces out a number of strategic directions for public policy, to harness the power of the market to make a dent in the country's poverty problem. In the process, the document challenges much conventional wisdom. It asks the reader to rethink with care what works, and what does not. The proposed strategy makes no claim to work miracles overnight. Rather, it argues that the strategic directions proposed, if adhered to over time, can have measurable, sustainable impact. The authors ask the reader to reflect on the propositions laid out here and, if they make sense, to act accordingly.

Background

In 1994, USAID/Peru prepared its path-breaking Food Security Strategy. Among other things, the strategy concluded that food security in Peru has its roots in poverty. As a consequence, the strategy argued that the key to reducing food insecurity in Peru is to raise the incomes – that is, the purchasing power – of the poor. Since poverty will not disappear overnight, it also recognized that appropriately targeted health and nutrition interventions should receive high priority in the short run, but it stressed that such programs, by themselves, will not have a permanent impact on Peru's food security problem.

Peru in 2000-2001 differs markedly from the Peru of 1994. For that reason, USAID decided recently to assess the degree to which the conclusions reached in the 1994 Food Security Strategy are still valid. Together with Canada's International Development Research Centre, it commissioned a team to apply the analytical framework used earlier to do just that. It also asked the team to recommend appropriate policies and program actions to attack Peru's food insecurity as effectively as possible.

Principal Findings and Conclusions

Today, as in the mid 1990s, Peru's food security problem is more than anything else a poverty problem. For that reason, and for the urgency that society at large attaches to attacking poverty, this document focuses consciously on the poverty side of the equation. Analytically, however, the document maintains the broader food security perspective.

By its very nature, poverty reduction is a medium- to long-term proposition. In the short to medium term, large numbers of Peruvians will continue to be malnourished or at nutritional risk. In particular, substantial numbers of young children will continue to be vulnerable to irreversible physiological damage and low cognitive and long-term productive capacity unless measures are taken to enable them to benefit from whatever food to which the incomes of their households give them access. Accordingly, the focus on income generation for the poor must be complemented by a focus in the short term on Peru's most nutritionally vulnerable population, children less than three years of age either currently malnourished or at high nutritional risk.

During the decade leading up to the new millennium, the Peruvian economy underwent a metamorphosis. Robust growth and major increases in public sector social expenditures alleviated the severity of the economic crisis of the late eighties and early nineties. From 1994 to 1998, annual GNP grew at an average of 8 percent, and 1.3 million new jobs came into being. The public sector social investment budget increased by more than three times from 1991 to 1999, and expenditures for direct food assistance programs increased by nearly five times. More people than ever before now have access to basic education, primary health services, potable

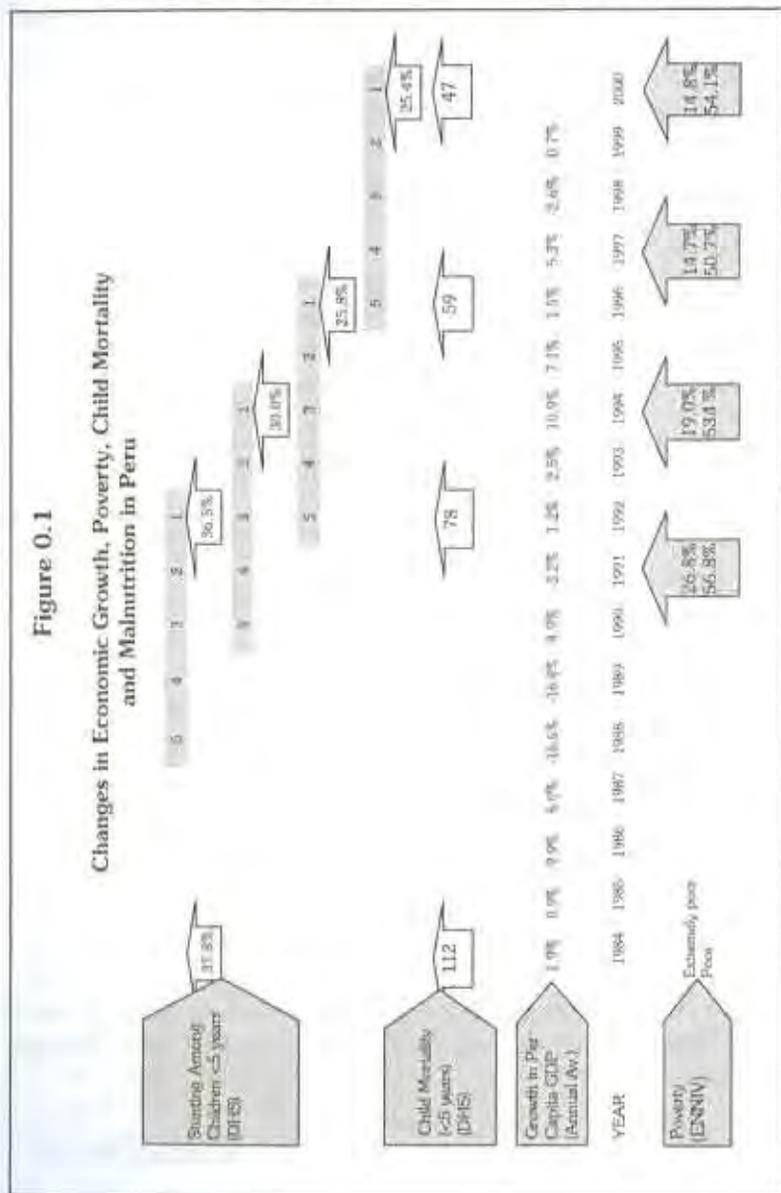
water, and direct food assistance. Chronic malnutrition in children under five declined from 36.5 percent in 1991-1992 to slightly more than 25 percent by the end of the decade. *Per capita* availability of calories and protein shifted from severe deficits in the early nineties to surpluses by 1998. And the share of the total population that is extremely poor declined from approximately 27 percent in 1991 to slightly less than 15 percent by 2000.

Unfortunately, the news is not entirely rosy. Despite continued macroeconomic stability and major expenditures on social programs, magnitudes of malnutrition, extreme poverty, and overall poverty remain at unacceptably high levels. As many or more Peruvians are extremely poor now compared to 1991, and the percentage of the population that is poor but not extremely poor remains unchanged. In other words, the poor have grown apace with total population. Even though employment growth has taken place, most of the jobs are precarious and, proportionally, have accrued less to the lowest income quintile than to higher quintiles. Income gaps have increased between the rich and the poor, as well as between urban and rural populations. Two-thirds of rural inhabitants continue to be poor, and one-third are extremely poor.

Figure 0.1 summarizes the key elements of this discussion graphically.¹ On the positive side of the ledger, Peru has made relatively steady progress in reducing both chronic malnutrition and infant mortality. On the negative side, poverty and extreme poverty have been more resistant to change. Worthy of note, though, is the close association between economic growth, on the one hand, and poverty reduction and chronic malnutrition, on the other. When GDP *per capita* increases, poverty and chronic malnutrition drop. When GDP *per capita* stagnates, so too does progress in reducing poverty and chronic malnutrition. Peru's poorest people did not participate equitably in the robust economic growth of the nineties, which was disproportionately concentrated in Lima. Similarly, a disproportionate share of the benefits of social programs has accrued to populations other than the poorest and most food insecure. Clearly, major improvements in **quality** and **targeting** are in order if Peru is to attend to the needs of its most vulnerable efficiently and effectively in the future.

¹ The authors are indebted to PRISMA for portraying these relationships.

In short, Peru has made impressive strides in ameliorating poverty and improving food security through macroeconomic stabilization, robust economic growth, and major increases in social investment, but the task ahead remains daunting, to say the least.



To have a permanent impact on poverty, stable economic growth will continue to be essential, in addition to investment in social programs. Sustained investment in basic social services will prepare poor people to become healthy, educated members of a productive, competitive work force in the future, while social safety net programs are essential to alleviate the poverty that is intractable to productive investment in the short run. For the social safety net to be effective, though, giant leaps in quality and targeting efficiency are in order, especially for those most vulnerable nutritionally – namely, poor households with children less than three years of age at high nutritional risk.

Principles for Setting Resource Allocation Priorities

This strategy update presents the facts about poverty and food insecurity in Peru and the various factors affecting them. But facts do not always speak for themselves. To move from thought to action, one needs to filter competing alternatives through a development paradigm. Without such a paradigm, it is difficult to know which of the panoply of constraints it makes sense to attack first. Accordingly, the document not only makes policy and program recommendations, but also attempts to make explicit the principles guiding the team's selection of policy and program priorities.

The key principles, which are discussed at some length in the text, are as follows:

- There are so many worthwhile things one can do to attack poverty in Peru that one can justify practically any intervention he or she can think of. The difficulty is that the resources available to address poverty pale alongside the magnitude of the problem. As a consequence, opportunity-cost thinking is essential.
- Firm, coherent monetary and fiscal policy is essential to keep Peru's economic house in order and to bolster public confidence in economic policymaking.

- For a country like Peru to reduce permanently the number of its people in poverty, its economy must grow for a number of years at a rate of 8 to 10 percent a year.
- Peru's legacy of activism by the state has been exacerbated by government, nongovernmental, and donor responses to the economic crises of recent years. The result is a climate of *asistencialismo*, which is antithetical to a long-term poverty alleviation strategy.
- For Peru to make a permanent dent in poverty, the productivity of its poor people must increase. For the productivity of its poor people to increase, they must have more capital, both physical and human, to work with.
- Realistically, poor people have limited capacity to expand physical capital on their own. As a result, one must look to the non-poor, both in and outside Peru, for the lion's share of the investment required for future growth in jobs and incomes.
- In Peru, as elsewhere in the world, education has been and probably always will be a major escape valve for the children of the poor.
- Both macroeconomically and locally, the major constraint to development in Peru is lack of effective demand. As a result, connections with outside markets are essential. In other words, Peru must trade, both externally and internally.
- In Peru, the best public investment for expanding market access is roads.
- The place one finds a problem is not necessarily the best place to attack it. As a case in point, the location of the majority of Peru's poorest people in rural areas does not necessarily make rural areas the best place to attack their poverty.
- The logical place to direct productive infrastructure and services is the country's intermediate cities with economic potential, together with their respective countrysides.

- The role of government is to encourage private sector activity. It is not to pick winners, to make productive investments, or to produce. Those responsibilities lie with the private sector.
- Not only is lack of effective demand the key constraint to development in Peru. Demand is the point of entry for attacking its poverty.
- If one sees the development process as driven by demand, pitting city against countryside makes little programmatic sense. In fact, urban and rural areas fit naturally together in what can be termed "economic corridors."
- Migration is a good thing, not a bad thing.
- The primacy of demand has much to say for the how-to of microenterprise development.
- Tax, tariff, and interest rate interventions are inappropriate instruments for favoring selected economic sectors or regions over others. Let fiscal policy apply equally to all. If public policy wants to promote specific sectors or regions, invest in public goods to lower the transaction costs affecting their competitiveness.
- The demand-driven principle has far-reaching implications for the provision of social services.
- Direct purchases by government locally are a two-edged sword: although they boost local demand temporarily, they run the risk of distorting product and factor markets.
- Food is a necessary but not sufficient condition for good nutrition.

Recommended Policies and Program Actions

Below appear illustrative examples of policy and program actions that can contribute to the reduction and alleviation of poverty, as well as to the improvement of Peru's food security. The examples

are organized in three tables: first, policies and program actions conducive to boosting productive investment in physical capital; second, policies and program actions for increasing productive investment in human capital; and, third, measures associated with social spending and policy.

Although the recommendations are not exhaustive, they do deal with key policy and program choices. More than that, they illustrate how one can apply the principles cited above to specific policy and program issues. That, in fact, may be the major contribution of this document. In Peru, the tendency to look to government to solve one's problems typically leads one to conceive of poverty and food security problems in a limited and counterproductive way, giving government more credit than befits its role in a market economy, and belittling the contributions of private parties. Although government obviously has a significant role to play in defining rules for market activity and in investing in public goods that reduce transaction costs in the economy, finding a permanent solution to Peru's poverty and food security problem hinges directly on the extent to which private economic actors invest, grow, and create jobs. Even in social safety net programs, the private sector can make a significant contribution through the implementation expertise it brings to the table. In short, what the recommendations below serve to do more than anything else is to challenge conventional thinking by pointing out how market principles and solutions can contribute to the solution of some of Peru's most pressing problems – arguably, in fact, better than traditional interventionist approaches.

The examples below make a further contribution. The typical anti-poverty or food security strategy goes to great lengths to list the various actions that must be taken to achieve the objective in question. Very rarely, however, does the strategy say what *not* to do. That is unfortunate. In practice, resources are not infinite, and decision makers must make choices – that is, say that A is more important than B, B is more important than C, and so forth. For better or worse, the examples below do that. In doing so, of course, they do not play it safe. Even though some recommendations may appear controversial, the document offers them in a constructive spirit. The intent is not to be provocative for its own sake, but rather to generate honest reflection in the search for solutions that really work. Whether the document succeeds in that regard is for the reader to judge.

Table 0.1

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital		
Issue	Rationale	Recommendations
1. Geographic priorities	Geographically, the concept of "economic corridors" is a useful tool to guide public investment in physical capital.	Prioritize public investment in physical capital by "economic corridors" with high indices of poverty, giving preference to those with economic potential.
2. Market transaction costs	High market transaction costs, e.g., obtaining information about buyers, technological alternatives, and investment and finance opportunities, constitute a serious impediment to productive private sector investment.	Finance privately managed business promotion centers through competitive performance contracts. The centers would provide non-financial business development services to reduce market transaction costs in economic corridors.
3. Non-market transaction costs	High non-market transaction costs, e.g., contract enforcement, dispute resolution, obtaining operating permits, constitute a serious impediment to productive private sector investment.	Incorporate alternative dispute resolution mechanisms into commercial contracts. Set up "one-stop shops" in economic corridors to provide public services required by potential investors and existing enterprises, consolidating regional offices of ministries and other public sector entities.
4. Functional priorities	The public investments with the highest economic return, i.e., most likely to stimulate private sector economic activity, are roads, electricity, and water.	Focus public investment in physical capital in roads, electricity, and water. Expand the use of concessions and competitive performance contracting for such investments.
5. Equity vs. efficiency	The principle of equal access applies well to social services such as primary health care, nutrition, and basic education. In contrast, public investment in physical capital should conform to economic criteria.	For social infrastructure, invest throughout the country, targeting with poverty maps or similar tools. For productive infrastructure, focus in economic corridors with economic potential. Give priority to trunk and access roads that link areas of potential with markets, complementing other investments. Limit INADE's and FONCODES's purview to infrastructure.

(continues)

Table 0.1

(continuation)

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital		
Issue	Rationale	Recommendations
6. Tax policy	Tax policy affects productive private sector investment. Good tax policy does not give preference to one productive sector over another, but can differentiate geographically.	Apply central government tax instruments – income, value-added, tariffs, etc. – uniformly to all productive sectors. Give local governments taxing and spending authority, effectively allowing tax regimes to vary from one region to another.
7. Tax burden	Current tax levels, including retentions by businesses for employees, constitute a serious disincentive to investment, especially in labor-intensive economic activities.	Review the current incidence and composition of taxes with a view to restructuring and simplification, aiming to maintain current tax revenues while lessening the bias against labor-intensive activities. This would reduce incentives to economize on labor and encourage informal enterprises to formalize, effectively broadening the tax base and allowing decreases in currently high tax rates.
8. Means for favoring labor-intensive activities	Using tax policy to favor labor-intensive over capital-intensive activities generally provides only artificial advantages. In a market economy, it is better to invest directly in lowering transaction costs, resulting in activities that are competitive at market prices.	Favor labor-intensive activities, e.g., tourism agribusiness, manufacturing, construction, etc., but only with appropriate means. For example, reduce transaction costs through “hard” investments in supporting public infrastructure, especially roads, and “soft” investments like publicly financed but privately run business promotion centers in economic corridors.

(continues)

(continuation)

Table 0.1

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital		
Issue	Rationale	Recommendations
9. Size of enterprises requiring support	Small and medium firms generate much greater employment than micro firm; also, growth of the latter depends on the growth of the former, which in turn is often tied to linkages with large firms.	Promote linkages between small and medium enterprises and large firms, especially export enterprises; there is a serious confidence gap between them. Subcontracting can bring them together through such measures as promotion of outsourcing via business promotion centers.
10. Key legislation	The vagueness of current laws governing basic production factors is a serious impediment to private investment, especially in rural areas.	Make legislation governing water, land, and forest resources more conducive to productive private sector investment.
11. Role of government	Government should minimize its direct participation in the economy to the extent possible, focusing instead on fomenting and regulating private activity.	Exercise fiscal constraint. Reaccelerate privatizations and concessions. Expand markedly the use of competitive performance contracts in the provision of public services.
12. Macroeconomic stability	Stability of the overall economic policy framework is essential to increase private investment.	Resist the temptation to change the rules of the game of the economy in reaction to the <i>coyuntura</i> . Stay the course.
13. Finance	Banking is a business for the private sector.	Leave banking to the private sector, resisting the temptation to create special-purpose banks. Focus on the underlying problem of lack of competitiveness by lowering private sector transaction costs. Strengthen the legal framework to encourage equity investment.

Table 0.2

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Human Capital		
Issue	Rationale	Recommendations
1. Geographic priorities	Although every Peruvian has the right to basic education, there may not be enough resources to attend adequately to all. Realistically, it may be necessary to set priorities.	If necessary, give preference to areas of extreme poverty, making basic education in the Sierra and Selva, and of girls, the highest priority.
2. Community involvement	Children get the most from their education when the community has a say about it.	Develop mechanisms to give communities more decision making authority for basic education. Look to CLAS (local health administration committees) for possible lessons for the education sector.
3. Functional priorities	In the 1990s, the government greatly expanded educational infrastructure. It is time to prioritize educational quality, which depends only in part on infrastructure.	Expand the pilot program of mobile teams training teachers on site. Pay incentive bonuses to high-performing teachers in rural areas of the Sierra and Selva.
4. Basic vs. university education	The social return to education is highest in primary school. At the other end of the spectrum, state universities have proliferated throughout the country, each with multiple schools, the majority of them sub-standard.	Cut back on public financing of state universities, directing the savings to basic education. Apply the principle of specialization to public financing of university education, reducing the number of schools within each university, but boosting the quality in those that remain. In short, emphasize quality over quantity.

(continues)

(continuation)

Table 0.2

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Human Capital		
Issue	Rationale	Recommendations
5. Vouchers	School vouchers can increase the effective demand of the poor for basic education. As a rule, monetized vouchers are more cost-effective than vouchers in kind, e.g., food.	Develop a monetized school voucher program in areas of extreme poverty. Implement it under the aegis of the Ministry of Education via competitive performance contracts with private organizations. If it is not possible politically to eliminate school feeding programs, assign them to a single institution, the Ministry of Education.
6. Technical and vocational education	The more technical and vocational knowledge a poor person has, the greater his or her likelihood of finding employment.	Expand training programs such as PROJOVEN that pre-identify employers committed to hiring graduates, targeting programs to poor people in high-potential economic corridors, and contracting operation to the private sector. Build on successful programs of private advanced technical training institutions like TECSUP.
7. Demand- vs. supply-side approach	To expand access of poor people to levels of education beyond basic education, it is more cost-effective to subsidize demanders than suppliers.	Instead of financing post-secondary training institutions like SENATI (suppliers), provide poor students (demanders) training vouchers so they can access scholarships or loans to finance quality advanced education.

Table 0.3

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Social Spending and Policy		
Issue	Rationale	Recommendations
1. Public and private sector roles	The public sector's proper role is in establishing a policy framework for social programs. Implementation should be left to the private sector, which has shown greater efficiency.	Limit government involvement to the regulation and financing of social programs, allowing the private sector to implement them under competitive performance contracts. The underlying philosophy is for government to manage for results, focusing on monitoring and evaluation of performance.
2. Matching programs to target population	To reduce malnutrition in children from 0 to 3 years of age, choose those programs that have demonstrated the greatest effectiveness.	<p>Prioritize the most effective programs, including:</p> <p>(1) integrated programs based in health sector establishments, e.g., PANFAR and PACFO;</p> <p>(2) community-based integrated programs, e.g., WINAY and NIÑOS; and</p> <p>(3) potable water and sanitation programs targeted to needy communities.</p> <p>Programs less effective in reducing malnutrition among the target population include <i>comedores populares</i>, Vaso de Leche, school feeding programs, and Wawa-Wasis. It is recommended:</p> <p>(1) the government stop subsidizing <i>comedores populares</i>, allowing those that are economically viable to operate as independent enterprises.</p> <p>(2) possible uses of Vaso de Leche resources be expanded to allow local governments to use them for the productive and social infrastructure of their choice; alternatively, encourage local governments to limit activities to nutritional interventions targeting vulnerable children under three.</p> <p>(3) school feeding programs not be justified on nutritional grounds, but rather by their educational impact.</p> <p>(4) the Wawa-Wasis be justified on educational grounds, including early stimulation, not by nutritional impact on poor children.</p>

(continues)

(continuation)

Table 0.3

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Social Spending and Policy		
Issue	Rationale	Recommendations
3. Geographic priorities	Every Peruvian has a right to primary health and nutrition services, but resources may be insufficient to meet all needs. Priorities must be set.	If necessary, give preference to areas of extreme poverty, favoring rural areas over urban areas and the Sierra and Selva over the coast.
4. Focus of food programs	The need for social stabilization has been used to justify a proliferation of food assistance programs. That justification is no longer valid.	Limit food distribution to emergency situations and to those programs whose objective is to improve the nutrition of children from 0 to 3 years of age.
5. Food and malnutrition	Malnutrition is not only a disease, and food is not a cure. To reduce malnutrition, one has to take many other factors into account.	When necessary, use food to attract needy households to essential services. Limit such instances of food distribution to potable water, sanitation, and health and nutrition education programs directed specifically to the target population.
6. Food and productive projects	In programs whose objective is to generate income and employment, food is a distraction.	Limit the purview of agencies specialized in social programs to such programs, allowing others with more appropriate specializations to promote economic activities. For example, among PRONAA's functions, exclude local purchases of food and the creation of microenterprises.
7. Specialization and integration	Specialization and integration are positive attributes. Duplication and dispersion are negative attributes.	Eliminate overlap among the various public agencies charged with managing nutrition programs, school feeding, microenterprise promotion, etc. Assign each function to one agency. To promote specialization and integration and avoid duplication and dispersion, create a Ministry of Social Investment. Such a ministry would absorb all public entities responsible for social programs. Short of creating a new ministry, transfer the majority of health and nutrition programs to the Ministry of Health.

I. Introduction

As the recent presidential campaign bears witness, poverty undoubtedly is one of Peru's most pressing problems. Indeed, attacking it successfully may be the country's most momentous challenge. The inability of the country to create quality jobs in the last few years has brought vast segments of Peruvian society to the brink of desperation. The perception is widespread: something—perhaps something radically different—must be done.

This document makes no pretense to having all the answers to Peru's poverty problem. It presents neither a blueprint nor a detailed action agenda. It does, however, lay out a framework for thinking through appropriate responses. It starts from the premise that government cannot do it all, that ultimately market forces must get the job done. From this premise, it traces out a number of strategic directions for public policy, with a focus on harnessing the power of the market to make a dent in the country's poverty problem. In the process, the document challenges much conventional wisdom. It asks the reader to rethink with care what works, and what does not. The proposed strategy makes no claim to work miracles over night. Rather, it argues that the strategic directions proposed, if adhered to over time, can have measurable, sustainable impact. The authors ask the reader to reflect on the propositions laid out here and, if they make sense, to act accordingly.

1.1 Framework for Thinking About Poverty

The literature on poverty is voluminous, both in Peru and worldwide. Generically, it has two non-mutually exclusive strands, one definitional, the other normative. The definitional strand concerns itself with trying to understand the nature of poverty—what it is and what dimensions it encompasses. As one might expect, it concludes that poverty is a multidimensional phenomenon: no one discipline can encompass its entirety, and, *a fortiori*, coming to grips with it is a task multidisciplinary in nature. For its part, the normative strand of the poverty literature proposes responses to

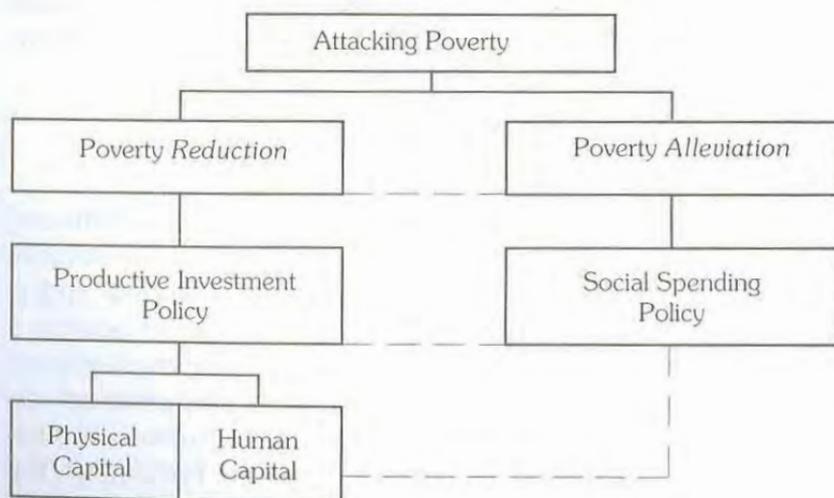
the poverty problem. Again, as one might expect, the proposed responses are legion, running the gamut of the various dimensions of poverty. The typical normative document is often encyclopedically taxonomic in recommending what *to do*, but rarely prescribes what *not to do*.

For one concerned about what actions to take to attack poverty, the bulk of this literature is frustrating. In practice, resources to attack poverty are scarce, and one must make choices. Relatively little of the literature provides guidance in this regard. In short, most treatments of poverty are diagnostic, but what decision makers need is strategic.

This document in no way wishes to minimize the complexity of Peru's poverty problem. Nevertheless, it is sympathetic to the requirements of action-oriented policymakers and development managers for guidance in choosing among competing policy and programmatic alternatives for fighting poverty. Accordingly, the conceptual framework for addressing poverty used in this document is straightforward and pragmatic; it also highlights some of the key tradeoffs practitioners face as they make resource allocation decisions. This conceptual framework appears in Figure 1.1.

Figure 1.1

Conceptual Model for Attacking Poverty



In general, one can wage the fight against poverty in two ways. The first way is to institute policies and take programmatic actions that reduce poverty - that is, that lower permanently the number of people who are poor. The second way is to institute policies and take programmatic actions that alleviate poverty - that is, that ease the burden of poor people but do not have a lasting impact. In the first instance, the incomes of poor people rise, and the likelihood is high that their income stream will continue, through either self- or other-generated gainful employment.¹ In the second instance, the well being of poor people rises in the short run, but its maintenance at that level typically requires recurrent expenditure. The first effect normally is identified with and results from "productive investment." The second effect normally is identified with and results from "social safety net expenditures."

Actions to reduce poverty generally affect relatively few people in the short term, but trigger broader socially desirable medium- and long-term effects. In contrast, actions to alleviate poverty can affect many, but are limited in impact to the short term. As a practical policy matter, therefore, given the tradeoff between poverty reduction and poverty alleviation, one cannot limit oneself to focusing on either one or the other. The challenge for public policy is to find the appropriate balance between the two, a work of art more than of science. In the figure, the tradeoff and need for balance are reflected both in the dotted lines connecting the poverty reduction and alleviation boxes and in the dotted line connecting the productive investment/policy and social expenditure/policy boxes.

As a rule, the more capital individuals have at their disposal, the more productive they will be - and, all other things being equal, the higher the incomes they will earn. This capital can take two forms. The first form is physical - plant and equipment, for example - which results from what one commonly thinks of as productive investment. The second form is human - which results, among other things, from education. Although it may not be common to think of education in investment terms, it is, as an investment, no less-

¹ As this example illustrates, this document measures poverty in income terms. This is so for two reasons. First, most observers share the view that increasing household income is a necessary, though not sufficient, condition for lowering poverty in Peru. Second, as Chapter 2 illustrates, other variables used to measure poverty correlate strongly with (lack of) income.

“productive” than investment in physical capital, especially for the poor. For that reason, Figure 1.1 breaks out investment in human capital to highlight its significance. The reader will note the dotted line between the human capital and social spending/policy boxes in Figure 1.1. The line serves two purposes: first, to point out the close connection between education and other “social” sectors; and, second, to blur somewhat the distinction between what is “productive” and what is “social.” As a practical matter, expenditures on health, nutrition, and education represent significant investment in people and, in principle, at least, can yield high returns in lifetime income.

In any event, in the concluding chapter of this document, policy and program action recommendations are organized in three sections. The sections correspond to the three blocks at the bottom of Figure 1.1: productive investment in physical capital, productive investment in human capital, and social spending and policy.

1.2 Origin of This Document

In 1994, USAID/Peru prepared its path-breaking Food Security Strategy. Among other things, the strategy concluded that food security in Peru has its roots in poverty. As a consequence, the strategy argued that the key to reducing food insecurity in Peru is to raise the incomes – that is, the purchasing power – of the poor. Since poverty will not disappear overnight, it recognized that appropriately targeted health and nutrition interventions should receive high priority in the short run, but also stressed that such programs, by themselves, will not have a permanent impact on Peru’s food security problem. The strategy gave an analogous argument for programs to increase food production: although these programs can be useful, they do not attack the heart of the problem, which is one of limited demand for food, not limited supply.

Peru in 2000-2001 differs markedly from the Peru of 1994. For that reason, USAID decided to assess the degree to which the conclusions reached in the 1994 Food Security Strategy are still valid today. Together with Canada’s International Development Research Centre, it commissioned a team to conduct the following four tasks:

- ◆ To define the nature and scope of food insecurity in Peru and how it has changed since the mid-1990s;
- ◆ To identify those factors (including policies, programs, natural events, etc.) that have helped improve food security in the country and those that have helped worsen it;
- ◆ To identify the continuing constraints; and
- ◆ To recommend appropriate responses to Peru's food insecurity, for the Government of Peru, nongovernmental organizations, and the donor community as a whole.

This document is the outgrowth of that joint U.S.-Canadian-sponsored initiative. Anticipating the results presented in the text, the team reached the same basic conclusion as the earlier strategy. Today, as in the mid-1990s, Peru's food security problem is more than anything a poverty problem. For that reason, as well as the urgency that society at large attaches to attacking poverty, this document focuses consciously on the poverty side of the equation. Analytically, however, the document maintains a broader food security perspective. This is so for two reasons. First, it is important to trace out the linkages between poverty and food insecurity, particularly to show how the former is the major determinant of the latter. Second, the Government of Peru (GOP) has made extensive use of food programs to alleviate the plight of the poor. The relative merits of such programs therefore deserve examination in this context.

1.3 Organization of This Document

This strategy consists of five chapters. Following this introductory chapter, **Chapter 2** defines Peru's food security problem. It examines how food security has evolved over the last decade and, again, concludes that its root cause is poverty. **Chapter 3** shifts from a static to a dynamic perspective, exploring how trends in population growth are likely to affect the severity, composition, and geographic distribution of poverty in the future. **Chapter 4** examines the principal constraints to reducing poverty. Finally,

Chapter 5 presents recommendations on how to attack poverty effectively, first offering a “realistically optimistic” vision of Peru in 2010, then spelling out a series of key principles to make that vision reality. Although the chapter’s recommendations include examples of public programs to emphasize and de-emphasize in the future - and the reasons why - the chapter makes no pretense to present a full-fledged *Plan de Gobierno*. In the opinion of the authors, the most important contribution of the chapter is its challenge to the reader to think differently about how to attack Peru’s poverty. Among other things, it argues for reliance on market principles, not only to reactivate the productive sectors of Peru’s economy, but also to improve the effectiveness of social expenditures. The document concludes with an annex that traces out the implications of the strategy for resource allocation decisions under **USAID’s** PL 480, Title II, program.

1.4 A Primer on Food Security

Like beauty, the meaning of food security lies in the eyes of the beholder. There are so many aspects of food security that different individuals are bound to conceive it in different ways. As a result, it is appropriate to conclude this chapter with a primer on the overall formal analytical framework that underlies much of this document, especially the diagnosis of Peru’s food security problem in Chapter 2.

Definition of Food Security

The definition of food security used in this document is:

Food security is access by all people at all times to enough food for an active and healthy life

This definition, used in the first Food Security Strategy, was originally popularized by the World Bank. It also is the definition used in the Food, Agriculture, Conservation, and Trade Act of 1990, which made important changes in the U.S. international food assistance program. USAID’s 1992 Policy Determination Number defines food security as “when all people at all times have both

physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life." Both definitions emphasize the accessibility of food or effective demand. This contrasts with earlier definitions that focused more narrowly on food availability or supply.

Determinants of Food Security

The definition of food security used in the original Food Security Strategy encompassed three basic elements: availability, access, and utilization. Some analysts have begun to make a distinction between food security (defined as consisting of the elements of food availability and access) and nutritional security (defined to include the concept of food security, as more narrowly defined, plus all the dimensions included in the concept of food utilization). In this strategy, food security is defined in its broader sense to include availability, access, and utilization. This is consistent with the approach taken in the earlier strategy. It also requires a more holistic and multisectoral view, both in defining the problem and in identifying solutions.

◆ *Food Availability*

Food availability can be a problem at the national, household, or individual level. A country cannot achieve food security unless available food supplies are sufficient to provide every person with an adequate diet. The necessary food supplies can be produced domestically; they can also be imported commercially or through concessional aid programs; or, in the short-run, they can be drawn from stocks. Food availability also can be a problem at the household or individual level. If food supplies are inadequate at the national level, there will not be enough food available to feed all households and individuals, even if distributed equally.

In a world increasingly integrated through trade and political-economic ties, global availability of food is of increasing importance to household food security. Availability of food at the household level also requires that food be available in local markets, which requires smooth market operations, functioning infrastructure, and a free flow of information.

◆ **Food Access**

Achieving food security in a country also requires that households have the ability – that is, the purchasing power – to acquire sufficient food. Some households will be able to produce sufficient food to feed themselves. Others will have to rely on earnings from farm and non-farm activities or on income transfers, food subsidies, etc., to be able to purchase a nutritionally adequate diet. Food, in other words, is a commodity, access to which is governed by the same factors that govern access to any other commodity. That is why poverty and food insecurity are so closely linked. Access also has relevance at the national level: if countries earn sufficient foreign exchange from exports of goods and services, it does not matter if they do not produce enough food to feed their populations adequately, as they can buy it on the international market.

◆ **Food Utilization**

People also can be said to experience food insecurity when they fail to consume proper diets, even when food is available. Similarly, food insecurity can occur when people consume proper diets, but poor health stands in the way of their bodies' absorption of sufficient nutrients. Given food accessibility, improper food utilization is the result of personal tastes, culture, peer pressure, lack of knowledge, inadequate household processing and storage, inadequate food labeling, misleading advertising, and lack of access to or utilization of health, water, and sanitation services.

Time Dimension of Food Insecurity

In theory, two types of food insecurity – chronic and transitory – can be distinguished, but, in reality, they are closely intertwined. Chronic food insecurity is consistently inadequate diet caused by inability to acquire food. It affects countries and households that persistently lack the ability to acquire food, whether by producing it themselves or by buying, bartering, borrowing, or sharing it. Chronic

food insecurity is rooted in poverty, while transitory food insecurity is a temporary decline in a country's or household's access to food. At the country level, it results from instability in food production or export earnings. At the household level, it results from instability in production, household incomes, employment, or food prices. In its worst form, transitory food insecurity can result in famine. The chronically food insecure are often hit hardest by transitory food insecurity.

What Food Security Is Not

Food security differs from:

◆ **Food Self-Sufficiency**

Food security does not mean food self-sufficiency. Since most foods can be traded internationally, national self-sufficiency only makes sense when a country has a comparative advantage in their production; also, food security is achieved only when all households have the ability to buy food. Thus, there is no necessary link between food self-sufficiency and food security. Indeed, empirical studies tend to confirm that food self-sufficiency has no intrinsic value in eliminating chronic food insecurity. Excessive concern with food self-sufficiency has led to costly, uneconomic investments in some countries, undermining not only *per capita* income growth, but also food self-sufficiency itself, by diverting resources from otherwise productive uses.

◆ **Agricultural Development**

Food security focuses on identifying the food insecure and determining how to promote their access to food. One of the better ways to promote access of the food insecure to food is to stimulate agricultural productivity and growth. Additionally, since demand for rural non-farm goods and services often stems from the agricultural sector, food security may partly depend on increased agricultural growth. Even in rural areas, though, the need to find ways to assist households at risk in generating

additional income quickly moves the scope of analysis and action beyond the agricultural sector into more generalized rural growth.

◆ **Broadly Based Economic Growth and Poverty Reduction**

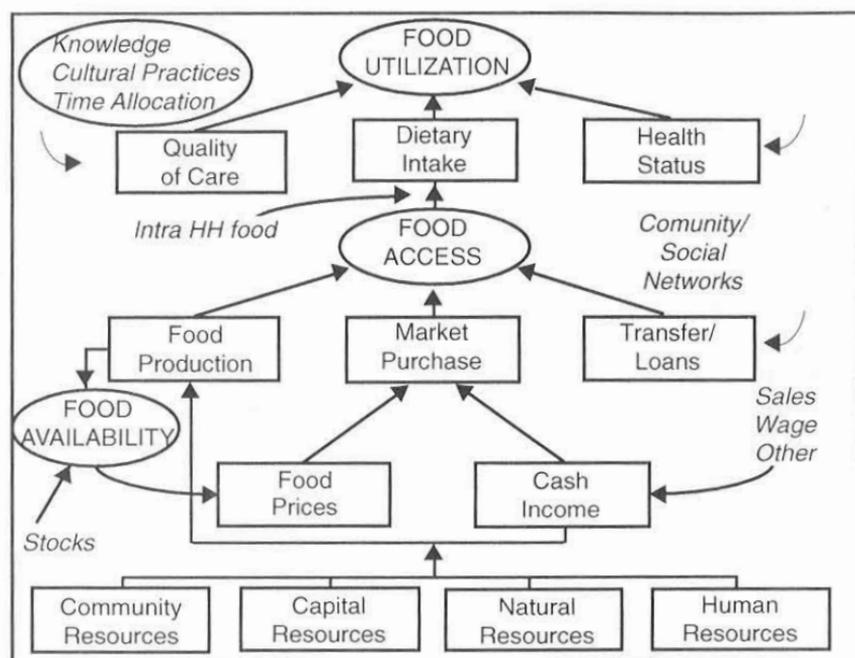
Combating food insecurity requires more than a commitment to broadly based economic growth and poverty reduction, although all three are closely related. A strategy for achieving broadly based economic growth differs from a food security strategy in its geographic scope and its time frame. In the first case, the scope is countrywide and the time frame long-term; in the second, the strategy is more location-specific and medium-term. A strategy directed toward poverty reduction, like a food security strategy, also will be targeted to the poorest geographical regions, occupations, ethnic groups, etc., but, like a strategy to achieve broadly based economic growth, will be oriented toward the longer term.

◆ ***Feeding Programs***

Feeding programs do not food security make. Rather, they are one particular response to a food security problem. Their geographic focus is location-specific and their time frame is immediate.

Figure 1.2

Illustrative Food Security Conceptual Framework



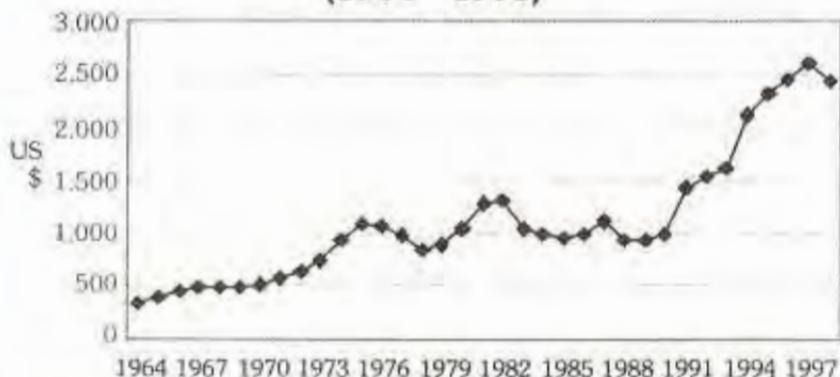
Source: Adapted from the FANTA Food Security Indicators and Framework, 1996. (Footnotes)

II. Definition of Peru's Food Security Problems

Food insecurity was a major problem in Peru in the early 1990s, in the years just prior to preparation of the original Food Security Strategy. The economy had stagnated during most of the 1980s. By the end of the decade, Peru was in an economic crisis, national food supplies were the second lowest in four decades, unemployment had soared, and millions of people were in imminent danger of going hungry. The economy began growing rapidly in the early 1990s in response to a new government and a vastly improved macroeconomic policy environment. Nevertheless, growth slowed in the latter part of the decade due to El Niño, the Asian financial crisis, and political instability.

Figure 2.1

Trends in *Per Capita* Income (1964 - 1998)



2.1 Food Availability

Low levels of *per capita* food availability are one of the first indications that a country has a serious food security problem. When *per capita* food availability is low, the total amount of available food in a country will not be sufficient to provide everyone with

enough food for a healthy life, even in the unlikely event that it were to be divided equally. But food is not divided equally when incomes are not divided equally. Countries with highly unequal income distribution, like Peru, need larger *per capita* food supplies or those at the bottom of the income distribution will not receive adequate supplies.

National Level Food Supplies

Food supplies have increased at the national level

Inadequate food supplies have been a problem in Peru for most of the last four decades. Calorie supplies were particularly low in 1979 and in 1991 and 1992, when they fell below 1,950 calories per person per day.¹ Supplies have risen substantially since the early 1990s, however. In 1997, for the first time in 40 years, national calorie supplies rose above 2,344 per person per day, the level the Peruvian National Center for Food and Nutrition estimates is required for a healthy life. Reasons for Peru's poor performance in food availability include low levels of agricultural productivity, drought, rural violence accompanied by abandonment of farms, scarcity of foreign exchange, and perhaps most importantly, low levels of effective demand on the part of Peru's poor.

National supplies of proteins have been below the recommended minimum (56.8 grams per person per day) for most of the last four decades. But they too have increased relatively steadily since their four-decade low in 1990. And by 1998, protein levels in the country had reached almost 65 grams per person per day, or 7.4 grams per person per day above the recommended minimum.

¹ For comparison, 2,100 calories per person per day is a figure often used to estimate food needs in refugee camps, where activity levels are low and authorities control distribution. Under normal conditions, activity levels are much higher and food is distributed on the basis of purchasing power, not nutritional need.

Figure 2.2

Trends in Supplies of Calories per Person per Day (1961 - 1999)

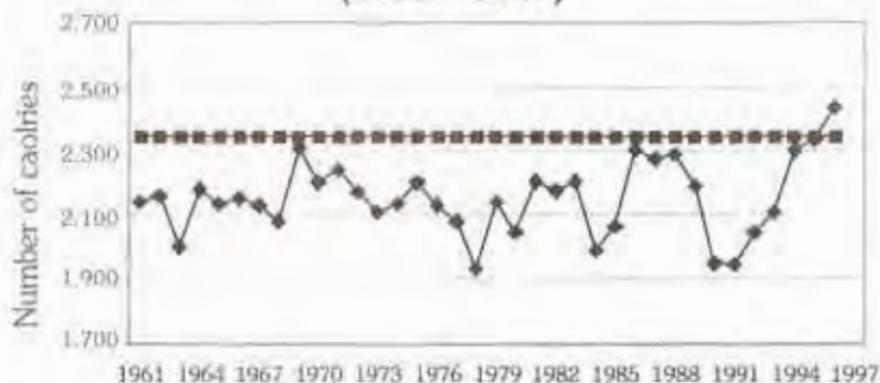
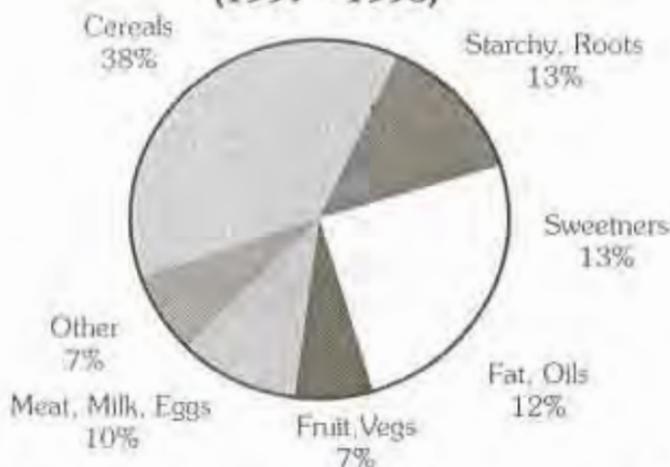


Figure 2.3

Composition of the Peruvian Diet (1997 - 1998)



The diversity of the national diet has improved

The quality of the Peruvian diet also was better at the end of the 1990s than in the past. Peruvians still get most of their calories from basic grains, but the percentage of calories supplied by basic grains declined. The percentage of calories from sugar, the second most important product in the Peruvian diet, has also declined.

Fruits and vegetables now supply a larger percentage of the country's calories. Another indication of improved quality of diet is the fact that the percentage of protein from animal sources increased from 35 percent in 1980-1981 to 39 percent in 1997-1998.

Food Production

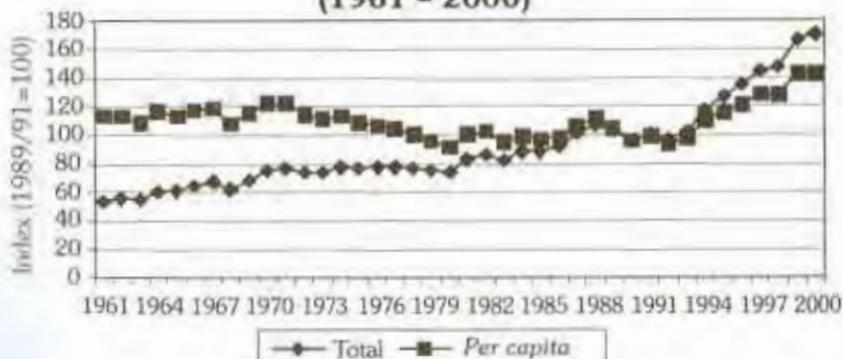
Both total and per capita food production increased during the 1990s

Food production in Peru increased during the 1960s and 1980s – but not fast enough to keep up with the country's growing population – and stagnated during the 1970s. As a result, *per capita* food production stagnated in the 1960s and 1980s and fell during the 1970s.

Since 1994, however, both total and *per capita* food production have increased significantly in response to a series of reforms in the agricultural sector, along with structural reforms implemented in the overall economy at the beginning of the decade.

Figure 2.4

Trends in Food Production (1961 - 2000)



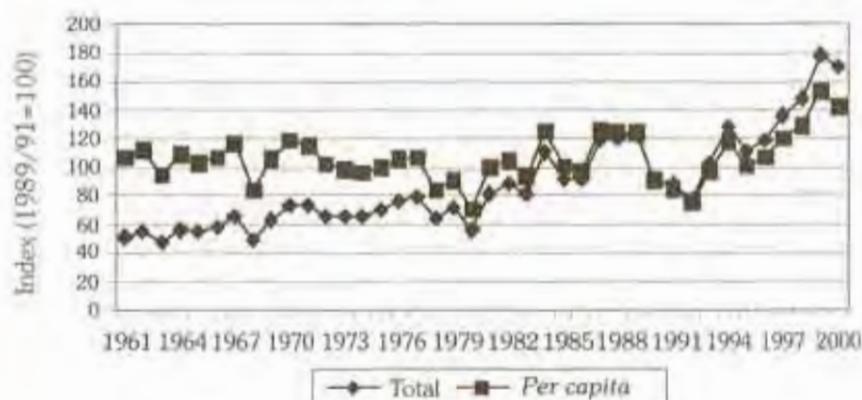
Government policies also help explain some of the earlier trends. The El Niño induced droughts and floods that periodically affect Peruvian agriculture account for many of the shorter-term downward trends. Political, social, and economic instability also contributed to the lack of real progress in increasing per capita food production during the 1970s and 1980s.

Both total and per capita grain production increased during the 1990s

Per capita production of grains – the staple of the Peruvian diet— stagnated during the 1960s and 1970s. Nevertheless, total and *per capita* production has trended upward since the early 1990s.

Figure 2.5

Trends in Grain Production (1961 - 2000)

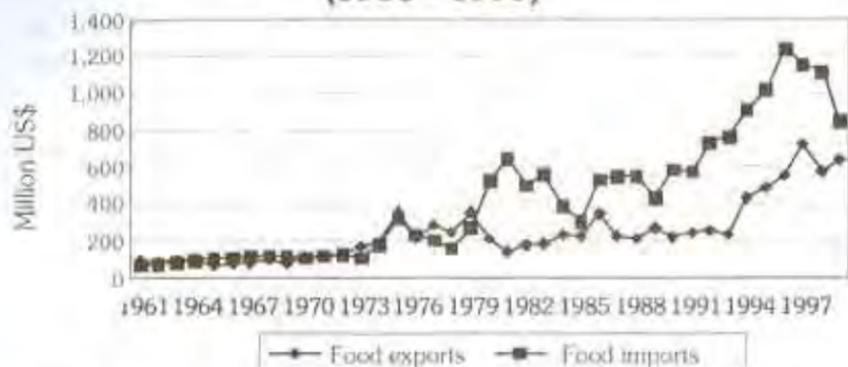


Food Imports

Food imports increased substantially during the 1990s with economy growth and the opening of the economy

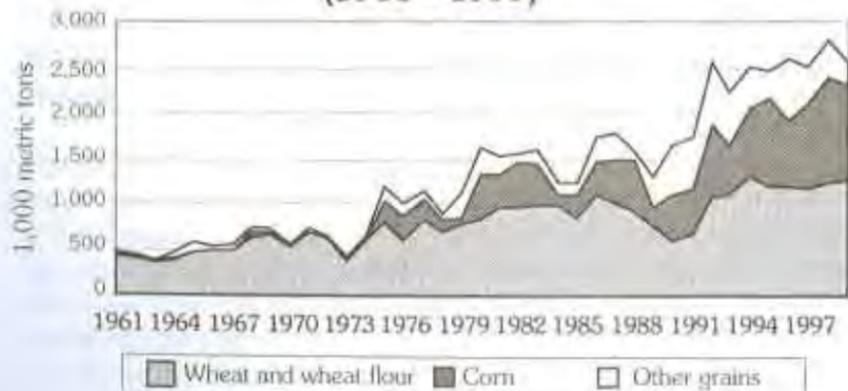
The value of the country's food imports more than double between 1990 and 1997 (from \$588 million in 1990 to a record high of over \$1.2 billion in 1997) with the opening of the economy and the rapid pace of economic growth during this period. As the pace of growth slowed in 1998, the value of food imports also fell. And even though the value of food exports has continued to increase, the country still has a negative balance of trade in food products.

Figure 2.6

Trends in Food Imports and Exports
(1961 - 1999)***Grain imports also increased substantially during the 1990s***

Grain imports also almost doubled in the 1990s, from 1.6 million metric tons in 1990 to 2.8 million metric tons in 1998 – an historic high. For years imports were dominated by wheat. Imports of yellow corn for animal feed began increasing in the mid-1970s. By 1998-1999 imports of yellow corn made up over 41 percent of total grain imports, while wheat represented 46 percent.

Figure 2.7

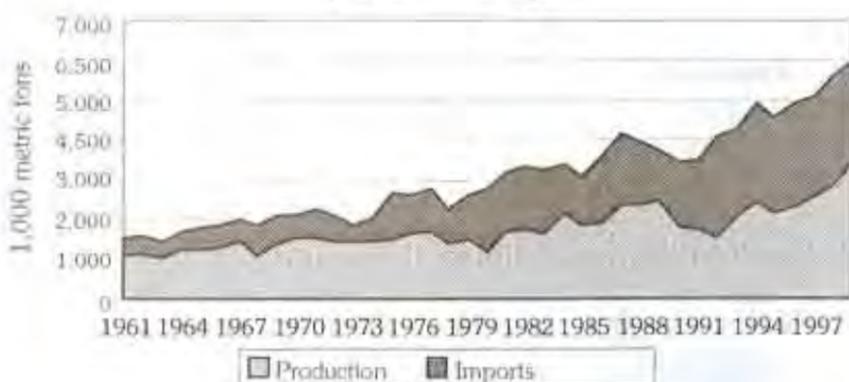
Trends in Grain Imports
(1961 - 1999)

Peru has become more dependent on grain imports

Peru has become more dependent on grain imports over time. During the 1960s and early 1970s, grain imports accounted for approximately 30 percent of total supply. The country has become increasingly dependent on grain imports since then, with demand increasing for grains for both human consumption and livestock feed. In 1992, grain imports reached a high of 62 percent of Peru's grain supplies. The average level of imports during the 1990s fluctuated around 50 percent.

Figure 2.8

Trends in Grain Production and Imports (1961 - 1999)



Grain donations represent only a small portion of Peru's food supply

Peru has received U.S. food assistance since the beginning of the PL 480 food assistance program in the mid-1950s. Donations of grain, much from the United States, increased substantially during the late 1980s and early 1990s in response to Peru's economic crisis at the time. Both the volume and value of donations declined as the economy improved in the 1990s.

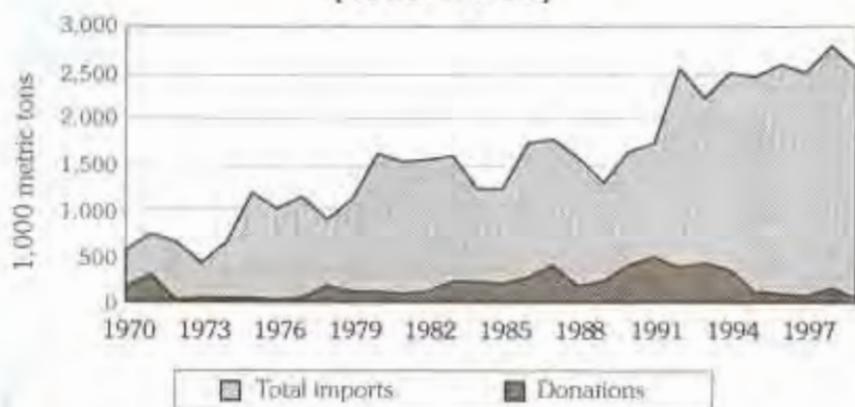
Figure 2.9

Changes in Grain Import Dependency (Imports as a Percent of Supply)



Figure 2.10

Trends in Grains Imports - Total and Donations (1970 - 1999)



2.2 Food Access

Lack of economic access to food is the major cause of food insecurity in Peru. The most significant factor limiting access to food is the very low purchasing power of a large percentage of the population. Although *per capita* incomes have risen and Peru is now classified as a lower-middle income country, there is still a

large amount of poverty in Peru as a result of unequal distribution of income and assets in the country.² In 1996, the poorest 20 percent of the population received only around 4 percent of the country's income while the wealthiest 20 percent captured over 51 percent.

Poverty contributes to food insecurity in Peru in a number of important ways. It restricts access to the amount and quality of food people need to live active, healthy lives. It also constrains households' access to services like health, water and sanitation, and education. And poverty and lack of purchasing power also are the ultimate cause of low levels of food availability in Peru. If poor households had enough purchasing power to translate their nutritional needs into effective demand for food, domestic food production would increase or foreign exchange would be used to pay for the food imports needed to make up any gap between domestic production and total food needs.

The Nature and Extent of Poverty

Poverty is a social condition with multiple forms and causes. It is often thought of in income terms, with people classified as poor if they lack sufficient income for a minimum standard of living. When the poverty line is set at the income needed to access a nutritionally adequate diet, poverty and food insecurity become linked definitionally as well as functionally. Normally those lacking income to meet basic nutritional needs are defined as extremely poor. Those lacking income to meet both their nutritional requirements and other basic needs, like clothing and housing, are defined as poor.

Although the economic dimension of poverty is important, some analysts also emphasize such dimensions as lack of access to an identified set of material needs considered fundamental or minimal, including access to safe water, adequate sanitation, primary education, and minimally adequate housing. Under this approach, a household is classified as poor if at least one of these needs is unmet, with the degree of poverty determined by the number of

² The Gini Index measures the extent to which income distribution among individuals or households deviates from a perfectly equal distribution. The higher the coefficient, the more unequal the income distribution. According to the World Bank

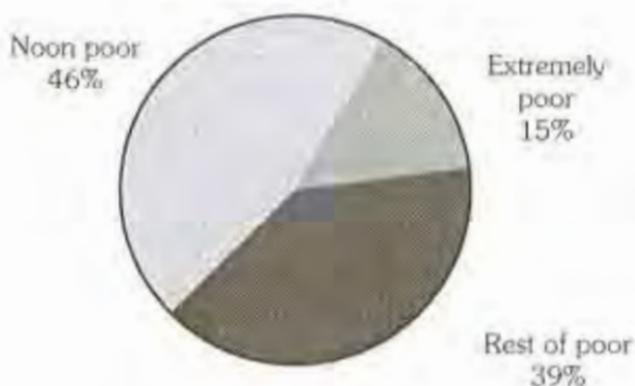
unmet basic needs. Frequently income-poor households lack access to basic public services such as water, sanitation, and education, especially in rural areas. Such lack of access has implications for food security. Incomes have a direct effect on access to food; access to water and sanitation has an effect on health status and the biological utilization of food; and education can affect food consumption behaviors.

Poverty and extreme poverty are still serious problems in Peru

In 2000, 54 percent of Peruvians were poor and unable to achieve minimum standards of food access, education, health, and housing. Of these, 15 percent - some 3.8 million people - lived in extreme poverty, too poor to afford a basic basket of food.

Figure 2.11

Poverty in Peru in 2000



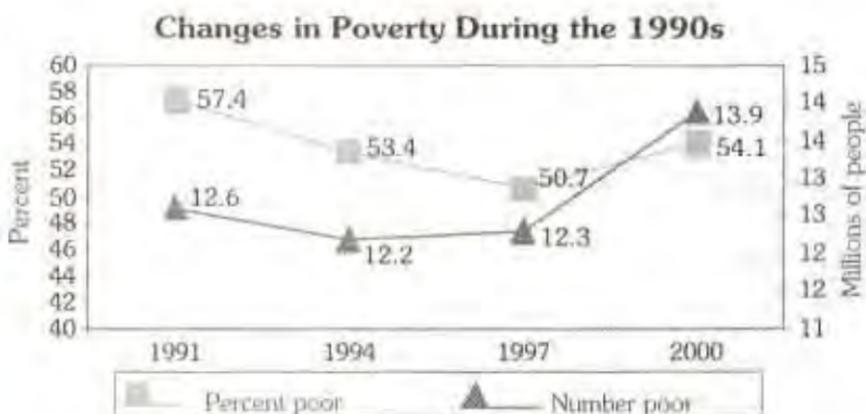
Both percentage of population and number of people living in poverty declined in the first half of the 1990s, but these gains were reversed between 1997 and 2000

The poverty rate - the percentage of the population unable to finance a basic basket of goods - declined during the first half of the 1990s. In 1991, almost 58 percent of the population lived in

poverty, with income levels that did not enable them to achieve minimum standards of food access, education, health, and housing. By 1997, the percentage living in poverty had declined to less than 51 percent, equivalent to approximately 12.3 million Peruvians.

With the slowing of the economy in the latter part of the 1990s, the poverty rate increased again to over 54 percent in 2000 (3.4 percentage points higher than the 1997 rate but still 3.3 percentage points below the poverty rate in 1991). And the number of people in poverty increased to 13.9 million people – a record high – meaning that 1.6 million more people were living in poverty in 2000 than in 1997.

Figure 2.12

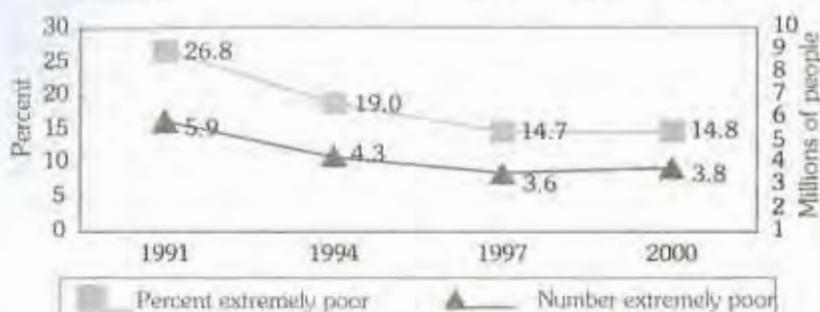


Similar progress was made in reducing extreme poverty during the first half of the 1990s, but stagnated in the latter part of the decade

In 1991, almost 27 percent of the population – 5.9 million people – lived in extreme poverty, too poor to afford a basic basket of food. By 1997, with economic growth, the number of people in extreme poverty had declined to 3.6 million people or less than 15 percent. With the slowing of economic growth in the late 1990s, progress in reducing the percentage of the population in poverty stagnated and some 200,000 entered the ranks of the extremely poor in 1997-2000.

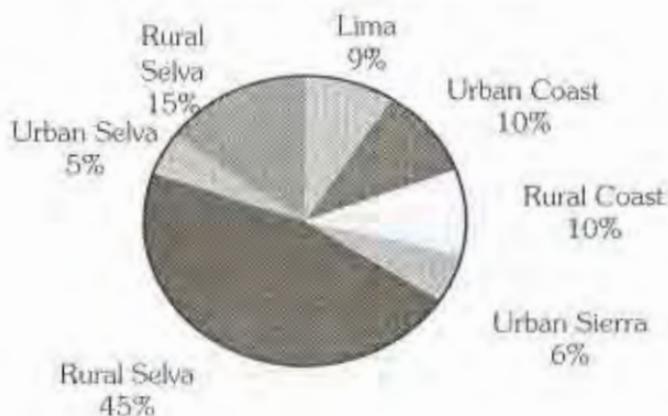
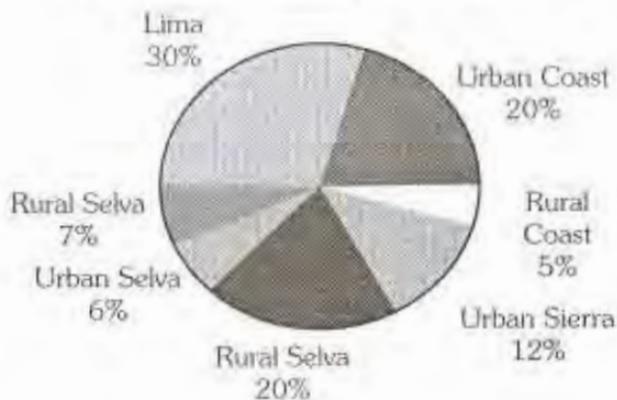
Figure 2.13

Changes in Extreme Poverty During the 1990s

*The Geographical Location of Poverty****Extreme poverty is still concentrated in rural areas***

It is the extremely poor who are the most important from a food security perspective since, by definition, they are the least likely to have adequate diets. Extreme poverty in Peru has always been primarily a rural problem. Over two-thirds of the 3.8 million extremely poor lived in rural areas in 2000. A full 45 percent - over 1.7 million people - lived in rural areas in the Sierra; another 15 percent lived in rural areas in the Selva. In contrast, only 9 percent of the extremely poor - some 350,000 people - lived in Lima. However, the majority of poor, but not extremely poor, were concentrated in urban areas, with 30 percent in Lima and another 20 percent in other urban centers on the coast; another third lived in rural areas, including 20 percent - 2 million people - in rural areas of the Sierra.

As a result of these distribution patterns, an individual in rural Peru is more likely to be poor or extremely poor than a person in an urban area. Two-thirds of rural residents were poor in 2000 and over 30 percent were extremely poor. In contrast, less than half the people living in metropolitan Lima were poor and only 4.7 percent extremely poor.

Figure 2.14**Distribution of the Extremely Poor
(3.8 million people) in 2000****Figure 2.15****Distribution of the Other Poor
(10.1 million people) in 2000**

Extreme poverty is particularly serious in the rural areas of the Sierra and the Selva, with over 30 percent of the population in each region living in extreme poverty in 2000. People in the urban areas of the Sierra and the Selva, in contrast, were much less likely to be living in extreme poverty – only 6.6 percent in the Sierra and 11.6 percent in the Selva.

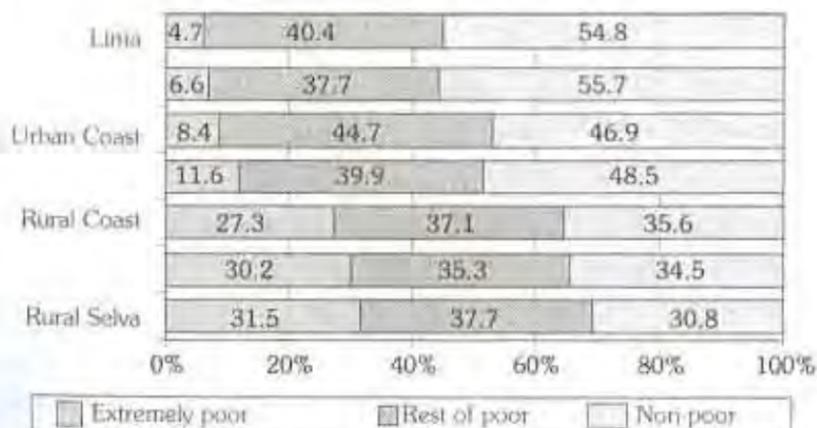
Figure 2.16

Incidence of Poverty in 2000 by Urban-Rural Location



Figure 2.17

Incidence of Poverty in 2000 by Geographic Region



Some progress has been made in reducing extreme poverty in rural areas, but overall poverty has increased

Although the percentage of the population in extreme poverty increased slightly between 1997 and 2000 for Peru as a whole, it

continued to decline in rural areas, from 36.2 percent in 1994, to 31.9 percent in 1997, to 30.1 percent in 2000. The number of extremely poor in rural areas also declined, falling from 2.9 million in 1994 to 2.7 million in 1997, then declining by another 71,000 between 1997 and 2000. On the other hand, the percentage of poor, but not extremely poor, increased between 1997 and 2000 in both urban and rural Peru, as did absolute numbers.

Table 2.1

**Changes in the Percentages of Poor and Extremely Poor
by Urban-Rural Location During the 1990s**

	Total poor			Extremely poor			Rest of poor		
	1994	1997	2000	1994	1997	2000	1994	1997	2000
Total country	53.4	50.7	54.1	19.0	14.7	14.8	34.4	36.0	39.3
Lima	42.4	35.5	45.2	5.5	2.4	4.7	36.9	33.1	40.4
Other urban areas	50.4	48.9	49.8	13.0	7.6	8.4	37.4	41.3	41.4
Rural	65.5	64.8	66.1	36.2	31.9	30.1	29.3	32.9	36.0

Table 2.2

**Changes in the Number of Poor and Extremely Poor by
Urban-Rural Location During the 1990s
(in millions)**

	Total poor			Extremely poor			Rest of poor		
	1994	1997	2000	1994	1997	2000	1994	1997	2000
Total country	12.2	12.3	13.8	4.3	3.6	3.8	7.8	8.8	10.1
Lima	2.8	2.5	3.3	0.4	0.2	0.4	2.4	2.3	3.0
Other urban areas	4.2	4.3	4.6	1.1	0.6	0.8	3.1	3.6	3.9
Rural	5.2	5.6	5.9	2.9	2.7	2.7	2.3	2.8	3.2

Some progress has been made in reducing extreme poverty in the sierra

The percentage of the population living in extreme poverty also fell in the Sierra – both in urban and rural areas – during the 1990s. Urban areas experienced a decrease of 8 percent between 1994 and 2000, while extreme poverty in rural areas declined by 7.5 percent. In both cases, the biggest decrease took place between 1994 and 1997, a time when the economy was growing rapidly. The number of extremely poor in the Sierra also declined between 1997 and 2000, although the estimated decline was relatively slight.

Table 2.3

Changes in the Percentages and Numbers of the Poor and Extremely Poor Living in the Sierra During the 1990s

		Total poor			Extremely poor			Rest of poor		
		1994	1997	2000	1994	1997	2000	1994	1997	2000
Incidence (%)	Urban	51.6	37.5	44.3	14.6	7.4	6.6	37.0	30.0	37.7
	Rural	64.7	68.1	65.5	37.7	32.6	30.2	27.0	35.5	35.3
Numbers (Millions)	Urban	1.5	1.2	1.4	0.4	0.2	0.2	1.1	0.9	1.2
	Rural	3.4	3.6	3.8	2.0	1.7	1.7	1.4	1.9	2.0

Other Determinants of Poverty

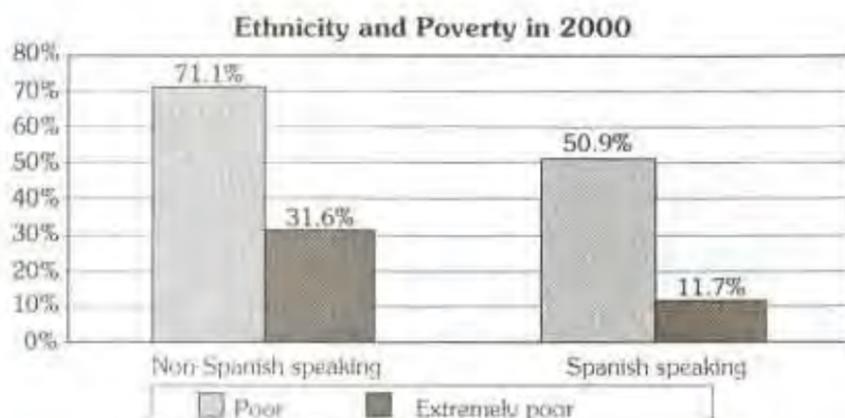
Poverty, especially extreme poverty, is more serious among non-Spanish speakers

Poverty continues to be a major problem among Peru's non-Spanish speaking population, including those who speak Quechua, Aymara, and other indigenous languages. In 2000, over 71 percent of Peru's non-Spanish speakers lived in poverty compared to a little over 50 percent of Spanish speakers. Almost a third of non-Spanish speakers were extremely poor compared to only 11 percent of Spanish speakers.

The education levels of the adult non-Spanish speaking population are also low, and illiteracy rates substantial (21 percent of the non-Spanish speaking rural population over six years of age is illiterate). School attendance of children from non-Spanish

speaking families is significantly below the national average; such children are twice as likely to be malnourished. Other factors such as education and experience being equal, non-Spanish speakers also earn less income than Spanish speakers.

Figure 2.18



Other Groups at Relative Risk of Being Poor

An analysis of the data from the 1994 and 1997 household surveys provides additional information on the groups that are more likely to be poor, as well as certain characteristics of households that increase their likelihood of being poor (see Table 2.4).

- Non-Spanish speaking population.* The non-Spanish speaking population was the group with the highest relative risk of being income-poor – and its relative risk was increasing. In 1994, this group was 40 percent more likely to be poor than Spanish speakers; in 1997, it was 49 percent more likely. In other words, non-Spanish speakers were falling behind.
- Children.* Children were the poorest group in Peru. Poverty is defined at the household level and many children live in poor households. Children less than 14 years of age had a 25 percent higher risk of being poor than the rest of the population, and this risk increased slightly between 1994 and 1997. Labor rates for children between 6 and 14 also doubled over the period.

Table 2.4

**Poverty Risks of Selected Groups/Factors
More or Less Likely to Be Poor
(percentages of population)**

Selected Groups/Factors	National		Percentage of total poor
	1994	1997	1997
Non-Spanish speakers	40.2	48.7	21
Children (6-14 years)	24.6	25.3	18
Rural households, landless	3.5	-3.7	16
Rural households with at least one member in off-farm employment	24.0	-23.0	18
Migrants	-16.3	-17.8	28
Female-headed households	-12.8	-16.5	11
Households with spouse or partner of head working	-10.8	-20.6	36
Households without water and sanitation	54.2	49.5	36
Households without electricity	63.0	68.5	38
Households with head less than secondary education	72.8	72.3	62
Households with seven persons or more	71.4	106.4	32

Source: World Bank, based on ENNIV 1994 and 1997.

A positive entry in this table means that the population belonging to this group or with this characteristic is more likely to be poor; a negative entry means the reverse. Hence these are relative poverty rates, not absolute ones. The last column shows the share of the total poor population in Peru that belongs to this group or has this characteristic.

- *Landless, rural households.* Landless, rural households were slightly more likely to be poor in 1994, but this relative risk appeared to disappear by 1997.
- *Off-farm employment.* In 1994 the likelihood of being poor was 24 percent lower for rural families with at least one member employed in off-farm activities, and 23 percent lower in 1997.
- *Migrants.* Based on the relative risk of being poor, migrant families appeared to be making a successful transition to their new environments. Such families were at a 16 percent lower risk of being poor in 1994 than non-migrant families, and at an 18 percent lower risk in 1997. While most rural-to-urban

migrants indicate that they migrate for income and employment reasons, their educational levels tend to be higher than those of non-migrant families, helping explain their relatively successful integration into the economies of the cities to which they migrate.

- *Female-headed households.* Households with female heads fared better than male-headed households in recent years. Their relative risk of poverty was lower and continued to decline.
- *Basic services.* Households without access to basic services such as water, electricity, and sanitation were at a much higher relative risk of being poor than households with access. There was also evidence of increasing returns in relation to the number of services to which a household has access. A household with four services (telephone, water, electricity, and sanitation) had more than double the improvement in welfare of a household with access to two services. Electricity was the most important service for improvement in household welfare in rural areas, while a telephone was most important in urban areas. From a health perspective, clean water improved a household's welfare more when provided with sanitation.
- *Education.* Educational attainment remained one of the most important determining factors of poverty level; it also determined who was advancing rapidly or falling behind in Peruvian society. In 1994, Peruvians in households with heads with less than a secondary education were 70 percent more likely to be poor than the rest of the population. This large relative risk remained constant through 1997. Additionally, analysis of panel data (obtained from the same households in 1997 as in 1994) indicated the higher the initial education of a household head, the higher the household's *per capita* consumption growth. In effect, the better educated benefited proportionately more than the less educated in recent years.
- *Household size and dependency ratio.* Larger households were at a much higher relative risk of being poor, and this

relationship had become more negative. In part, the link between household size and household poverty works through the tendency for larger households to have more dependents per income earner. This higher dependency ratio likely means that households consume more in the present, save less, and therefore face reduced earnings and consumption possibilities in the future.

Unsatisfied Basic Needs

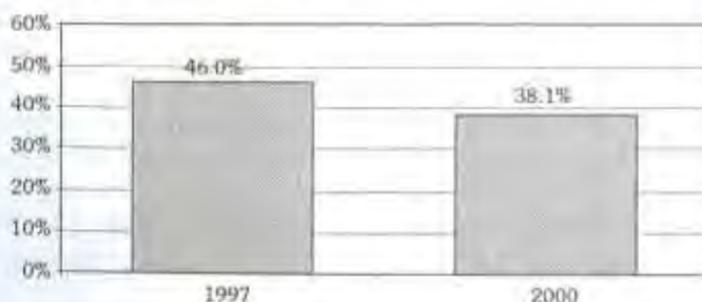
The Government of Peru has constructed an index of unsatisfied basic needs that can be used to complement estimates of income poverty. Five indicators are used to construct the index: adequacy of housing, access to water and sanitation, primary school attendance, degree of crowding in the household, and degree of economic dependency. Households with one unsatisfied basic need are defined as poor and households with two or more unsatisfied basic needs as extremely poor.

The percentage of the population with unsatisfied basic needs has declined

According to this index, 38.1 percent of the population - 9.8 million people - still had at least one unsatisfied basic need in 2000, 12.6 percent of the population - 3.2 million people - had two or more unsatisfied basic needs. This represents an improvement from 1997, when 46 percent of the population had at least one unsatisfied basic need.

Figure 2.19

Percentage of Population with Unsatisfied Basic Needs



The Majority of the Population with Unsatisfied Basic Needs Live in Rural Areas

In 2000, 61 percent of the population with unsatisfied basic needs lived in rural areas. This is in contrast to Lima, which accounts for 30 percent of the total population of the country but only 15 percent of the population with unsatisfied basic needs. As a consequence of these distribution patterns, a person living in a rural area is more likely to have an unsatisfied basic need than one living

Figure 2.20

Distribution of the Population with Unsatisfied Basic Needs by Urban-Rural Location in 2000

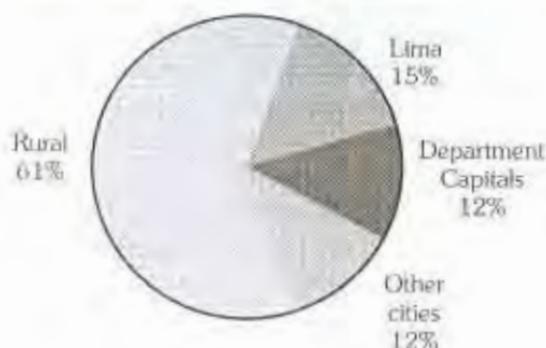
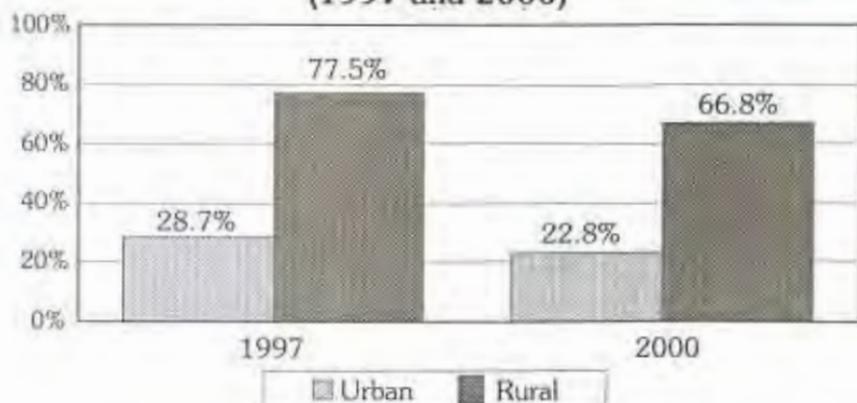


Figure 2.21

Percentage of Population with Unsatisfied Basic Needs (1997 and 2000)



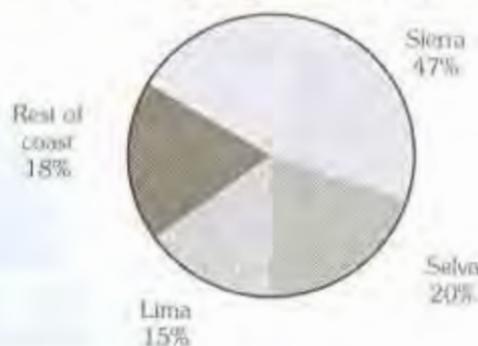
in an urban area. Two out of three people (66.8 percent) living in rural areas of Peru had unsatisfied basic needs in 2000. In contrast, only one out of five people (22.8 percent) in urban areas had an unsatisfied basic need. A larger percentage of the rural population is also likely to have two or more unsatisfied basic needs (24.3 percent) than the urban population (6.4 percent). This is an improvement. In 1997, over three-quarters of the rural population (77.5 percent) had an unsatisfied basic need, compared to a little over a quarter of urban dwellers.

More people with unsatisfied basic needs live in the Sierra than anywhere else

The problem of unsatisfied basic needs is the worst in the Sierra. In 2000, 47 percent of people with unsatisfied basic needs lived in the Sierra and 15 percent lived in Lima, with the remainder split between the rest of the coastal area (18 percent) and the Selva (20 percent). The incidence of unsatisfied basic needs is slightly higher in the Selva than in the Sierra: 56.7 percent of the population living in the Selva had an unsatisfied basic need in 2000 compared to 51.3 percent of the population of the Sierra. A larger percentage of the population in the Selva also is likely to have two or more basic unsatisfied needs (26.7 percent) than in the Sierra (15.3 percent).

Figure 2.22

Distribution of the Population with Unsatisfied Basic Needs by Region in 2000



The non-Spanish speaking population has poorer access to basic services

Since most non-Spanish speakers live in rural areas, their access to electricity, sanitation, water, and health services is lower than for the Spanish-speaking population. In addition, there was mixed success reaching this group with new services during the 1994-1997 period. New investments in sanitation went mostly to non-Spanish speakers, but all other investments, especially water and ambulatory hospital care, reached mainly the Spanish-speaking population in rural areas.

Table 2.5

Distribution of New Access to Basic Services in Rural Areas, by Language (1994-1997)

(In percentages)

New access	Non-Spanish speakers	Spanish speakers
Water connection	22	78
Electricity connection	47	53
Sanitation services	60	40
Ambulatory care, hospital	23	77
Ambulatory care, primary clinic	48	52

Source: *World Bank*, based on Enriv 1997

2.3 Food Utilization and Malnutrition

Food insecurity may exist when people can access adequate amounts of food – for example, when people fail to consume proper diets, even when sufficient food is available, or when poor health prevents absorption of nutrients. This is the utilization dimension of food insecurity. Nutritional status provides the most direct measure of food utilization, and is an indicator of whether people are consuming appropriate quantities and qualities of food. It also is an indicator of whether people's bodies are able, biologically, to absorb available nutrients. Measurements of age, weight, and height are used to assess nutritional status, with wasting, stunting, and underweight the most widely used measures. Wasting measures deficiencies in terms of weight for height, while stunting measures

deficiencies in terms of height for age. Underweight, or weight for age, is a composite indicator combining wasting and stunting.

Wasting – when a person too thin for a given height – is an indication of acute food loss, which could be due to an emergency, disaster, or other situation limiting a family's food supply. Stunting, on the other hand, is an indication of chronic malnutrition, or inadequate nutrition over time. When suffered by children less than 36 months old, it can diminish intellectual capacity and impair work performance later in life. When children fail to receive adequate nutrition during the first years of life (whether as a result of lack of food in the household, poor feeding practices, or poor biological utilization of food due to illnesses such as diarrhea or acute upper respiratory infection), growth is retarded and they appear short for their age. The period before 36 months is particularly important, as children are unlikely to fully recuperate growth lost during this time. Moreover, even moderate nutritional insults, when frequent enough, can show up as serious growth retardation.

Changes in the nutritional status of pre-school children are a particularly sensitive indicator of food insecurity. Young children, particularly those under 36 months, often are the first in a household to be affected by changes in economic status, food availability, availability of care givers', and access to sanitation and health services.

The Nature and Extent of Malnutrition

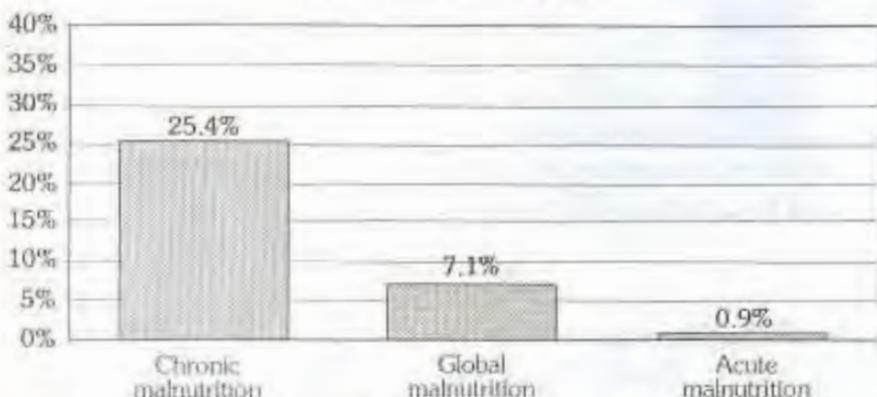
Chronic malnutrition is still a serious problem for children under five

Chronic malnutrition, measured by height for age (values ≤ -2 standard deviations), is still a serious problem. According to the latest Demographic and Health Survey, undertaken in 2000, over one-quarter of children in Peru suffer from chronic malnutrition – that is, they are too short for their age. In 2000, almost 350,000 children under five were malnourished, and therefore less able to learn and more vulnerable to illness, both when young and later on in life. Acute malnutrition is not a serious problem: in 2000 less than 1 percent of children under five were wasted, or underweight for their height (values ≤ -2 standard deviations). The rate of global

malnutrition, or undernutrition, is also reported. A measure of weight for age, it does not provide as clear a picture of the problem, as it is a composite indicator combining wasting and stunting.

Figure 2.23

The Prevalence of Malnutrition Among Children Under Five in 2000

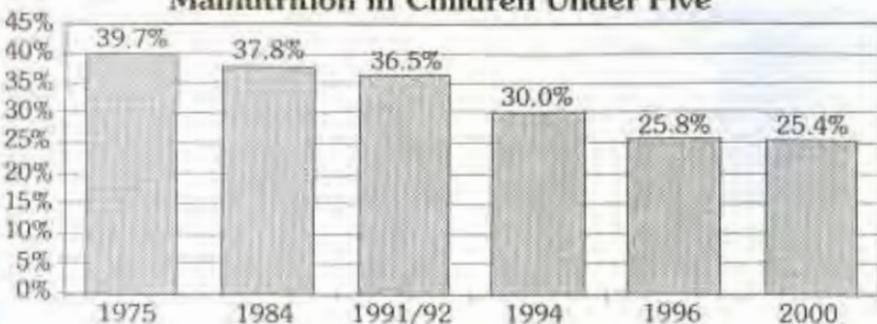


Rates of chronic malnutrition declined by over 10 percent during the first half of the 1990s, but have shown little improvement since

The percentage of children with chronic malnutrition declined in the first part of the 1990s, from 36.5 percent in 1991-1992 to 30 percent in 1994 (a drop of over six percentage points) and to

Figure 2.24

Changes Over Time in the Prevalence of Chronic Malnutrition in Children Under Five



25.8 percent in 1996 (a four percentage point drop). But in the decade's last four years, the rate barely changed: 25.4 percent of children under five were chronically malnourished in 2000, compared to 25.8 percent in 1997.

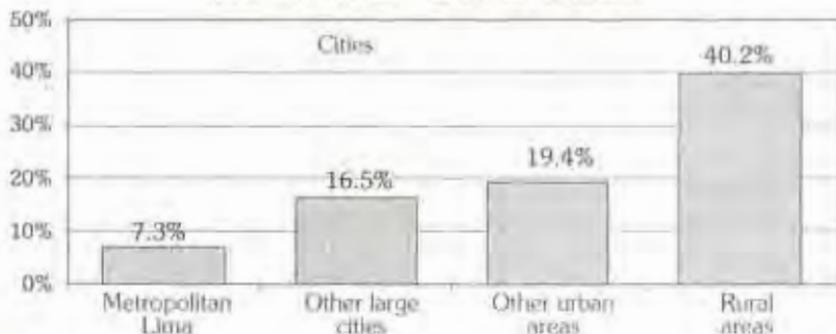
The Geographic Location of Malnutrition

The prevalence of chronic malnutrition is highest in rural areas

Children in rural areas are more likely to be chronically malnourished than those in urban areas. In 2000, over 40 percent of children in rural areas were malnourished, compared to 7.3 percent in Lima and 16.5 percent in other large cities.

Figure 2.25

The Prevalence of Chronic Malnutrition by Urban-Rural Location in 2000

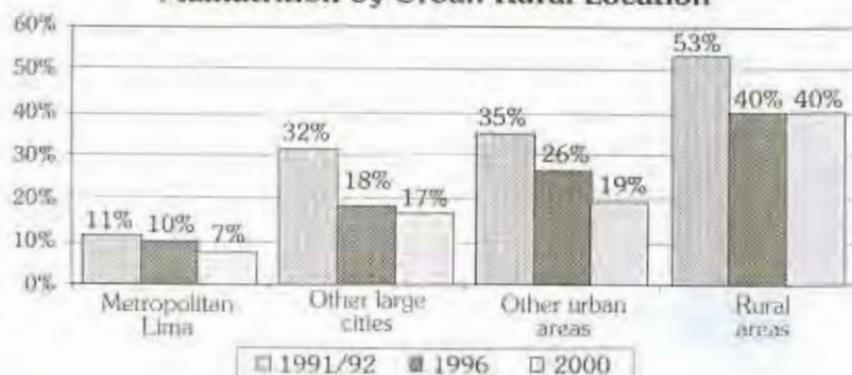


Decline in the prevalence of chronic malnutrition in rural areas was significant in the first half of the 1990s but minimal in the second half

The prevalence of chronic malnutrition in rural areas decreased by 13 percentage points between 1991-1992 and 1996. In contrast, the decrease between 1996 and 2000 was minimal – less than one percentage point. But in Lima, the reduction from 1996-2000 was nearly three percentage points, and in other urban areas, where the reduction was almost seven percentage points.

Figure 2.26

Changes Over Time in the Prevalence of Chronic Malnutrition by Urban-Rural Location

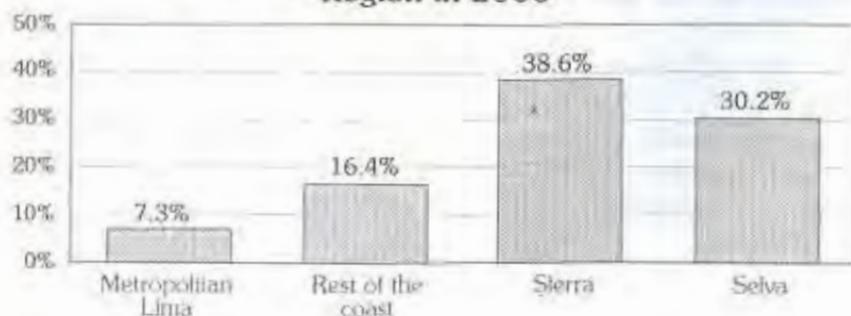


Chronic malnutrition is most prevalent in the Sierra

Children in the Sierra and the Selva were more likely to be chronically malnourished. In 2000, some 39 percent of children under five in the Sierra and 30 percent in the Selva were chronically malnourished. Rates for Lima and the rest of the coast were 7.3 and 16.4 percent, respectively.

Figure 2.27

The Prevalence of Chronic Malnutrition by Region in 2000

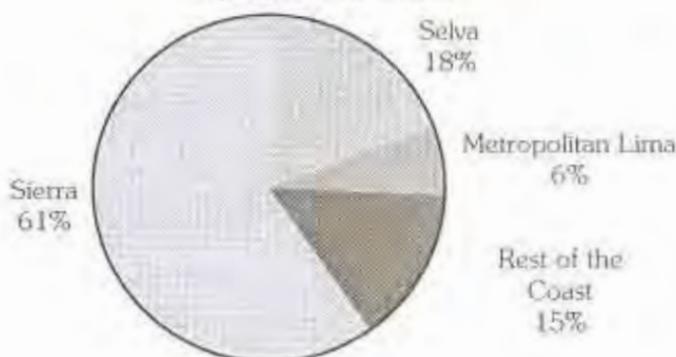


The majority of chronically malnourished children live in the Sierra

Over 60 percent of all chronically malnourished children (over 1.6 million) lived in the Sierra in 2000. Metropolitan Lima accounted for only 6 percent of the country's chronically malnourished children (approximately 169,000), while the rest of the coast accounted for 15 percent (approximately 388,000) and the Selva for 18 percent (approximately 470,000).

Figure 2.28

Distribution of Chronically Malnourished Children in 2000

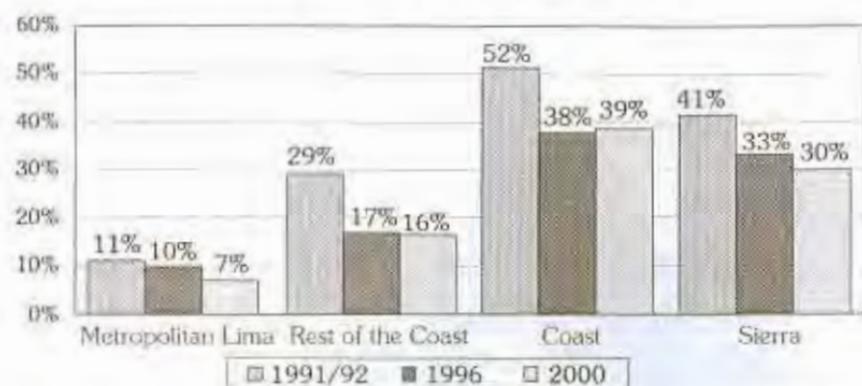


The prevalence of chronic malnutrition decreased in the Sierra in the first half of the 1990s, but increased slightly in the second half of the decade

The percentage of Sierra children chronically malnourished fell by almost 14 percentage points between 1991-1992 and 1996, but rose by nearly one point between 1996-2000. This contrasts with metropolitan Lima and the Selva, where the percentage dropped 2.8 points between 1996 and 2000.

Figure 2.29

Changes Over Time in the Prevalence of Chronic Malnutrition by Geographic Location

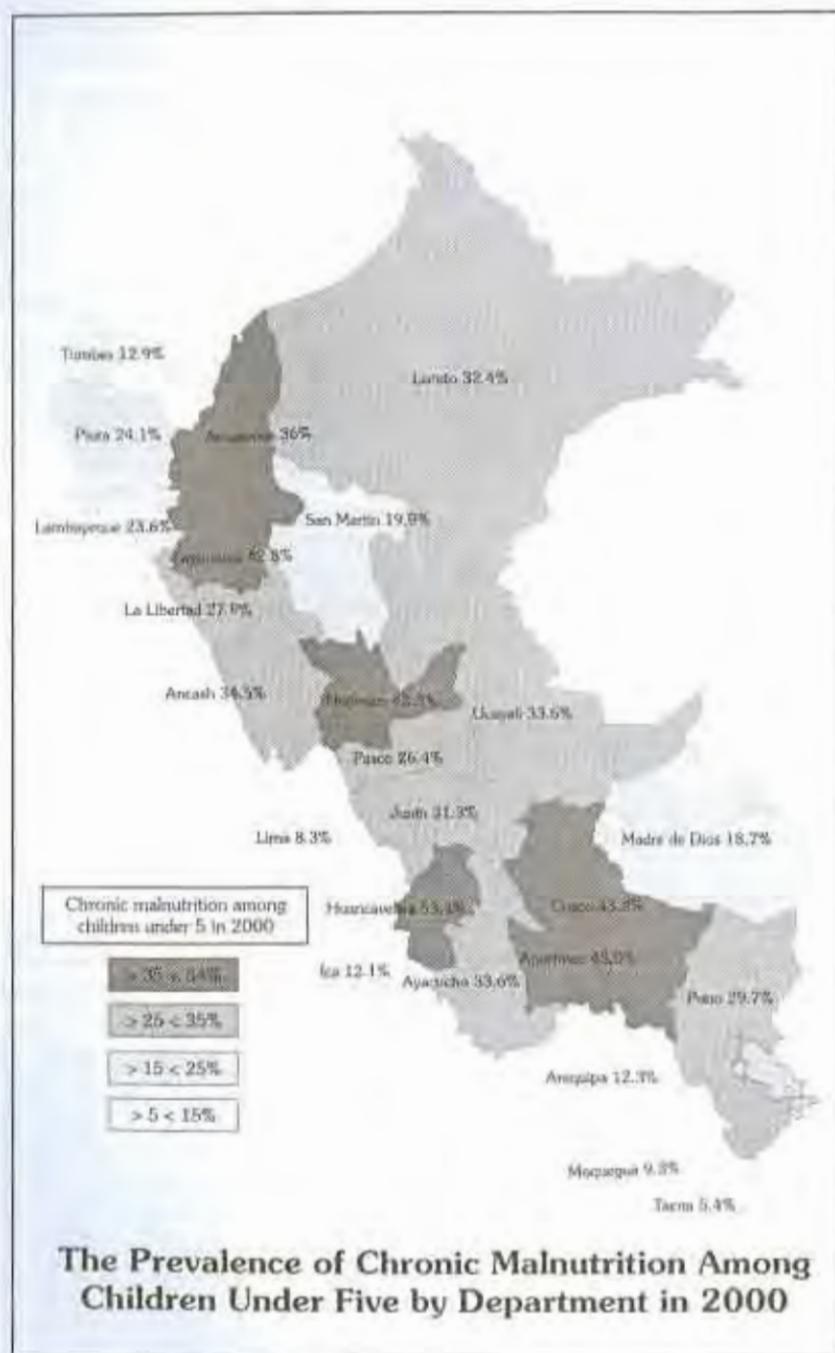


The prevalence of chronic malnutrition varies by department; the highest rates are in departments in the Sierra

Table 2.6

Prevalence of Chronic Malnutrition Among Children Under Five in 2000 and Changes Between 1996 and 2000 (by department)

Department	2000	Percentage point change between 1996 and 2000	Department	2000	Percentage point change between 1996 and 2000
Huancavelica	53.4%	3.1%	La Libertad	27.9%	-3.4%
Cusco	43.2%	2.3%	Pasco	26.4%	-20.8%
Apurímac	43.0%	-3.9%	Piura	24.1%	-4.0%
Cajamarca	42.8%	4.1%	Lambayeque	23.6%	-2.8%
Huánuco	42.8%	14.5%	San Martín	19.9%	-12.2%
Amazonas	36.0%	7.5%	Madre de Dios	18.7%	-1.7%
Ancash	34.5%	9.4%	Tumbes	12.9%	-1.8%
Ayacucho	33.6%	-9.6%	Arequipa	12.3%	-0.1%
Ucayali	33.6%	1.6%	Ica	12.1%	-1.8%
Loreto	32.4%	-3.7%	Moquegua	9.3%	-1.4%
Junín	31.3%	-3.8%	Lima	8.3%	-2.4%
Puno	29.7%	6.7%	Tacna	5.4%	-4.7%



Over 50 percent of children in Huancavelica Department in the Sierra, and over 40 percent in the departments of Cusco, Apurimac, Cajamarca, and Huanuco, were chronically malnourished in 2000. The prevalence of malnutrition increased between 1996 and 2000 in four of these departments - the exception is Apurimac - and in four more departments in the Sierra and the Selva - Amazonas, Ancash, Ucayali, and Puno.

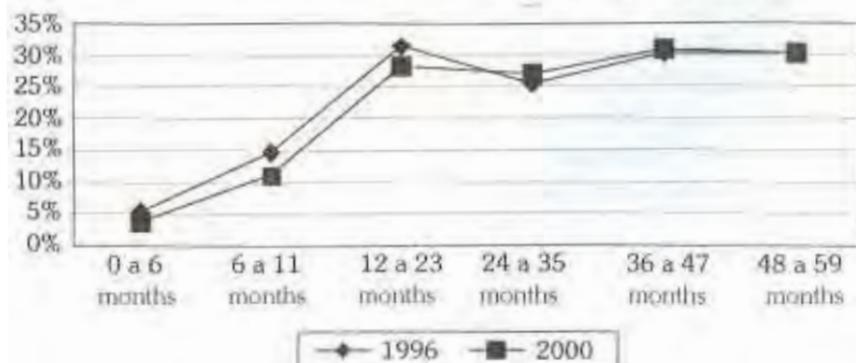
The Determinants of Malnutrition

Children at the age of weaning are at particular risk of malnutrition

The percentage of chronically malnourished children increases with age. In other words, the effects of chronic malnutrition are cumulative, but the effect begins to slow down at higher ages. Specifically, the largest increase in the percentage of stunted children occurs between the ages of 6 to 11 months, and 12 to 23 months, the age of weaning. In Peru, stunted children - those children with a height for age of more than two standard deviations below the norm - accounted for only 3.9 percent of children less than 6 months of age, but for 28 percent of children between 12 and 23 months of age. Children at the age of weaning are at particular risk of malnutrition.

Figure 2.30

Prevalence of Chronic Malnutrition by Age of Child

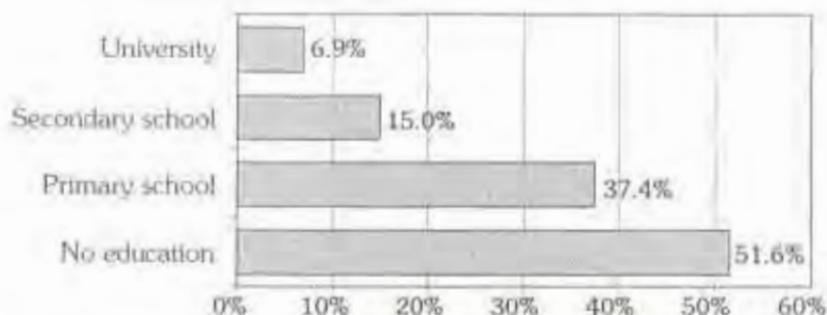


In Peru, breast feeding is common and protects children up to six months of age. But breast milk does not provide sufficient nutrition for children over six months, so the effects of insufficient food in the household and poor feeding practices begin to be seen after this age. Also, children are more exposed to infection when they reach the crawling age and begin to consume food and liquids other than breast milk. Appropriate breast-feeding and supplemental feeding are important at this stage in life. Delaying introduction of supplemental foods beyond six months, when breast milk no longer suffices, increases the risk of undernutrition and illness.

At the same time, foods other than breast milk under the sanitary conditions prevailing in much of Peru increases the risk of infectious diseases, including diarrhea, which can lead to undernutrition even when total food intake is adequate. In Peru, although over 95 percent of infants are breastfed, mothers have begun to provide supplemental foods to their children at very young ages, increasing the risk of diarrheal diseases. Traditionally, mothers have preferred to wean children using diluted preparations. These are not good weaning foods, as they do not provide sufficient calories and other nutrients at this important stage of life. Still, some progress has been made since the preparation of the 1994 Food Security Strategy. New nutritionally adequate weaning foods have been developed; also, better educational materials stressing the importance of improved weaning practices are used in many maternal-child health programs.

Children whose mothers lack education also are at higher risk

The more education a mother has, the less likely it is her children will be malnourished. In 2000, over 50 percent of children whose mothers lacked primary school education were chronically malnourished. For those with mothers with a primary school education, the figure was 37.4 percent, and for those whose mothers had a secondary school education, only 15 percent were chronically malnourished.

Figure 2.31**Prevalence of Chronic Malnutrition by Education of Mother*****Children in poor households are at higher risk of chronic malnutrition***

Children in poor households were almost twice as likely to suffer from chronic malnutrition in 2000 as children living in non-poor households (19.4 percent compared to 10.3 percent). Where the child lived also was important. Only 7.8 percent of children living in poor households in Lima, for example, were likely to be chronically malnourished, compared to 28 percent of children living in poor households in rural areas of the Sierra.

In most areas of the country, a higher percentage of children in extremely poor households were likely to be chronically malnourished than those in poor, but not extremely poor, households. In the rural areas of the Sierra, however, the incidence of chronic malnutrition among children under five was actually higher in poor, but not extremely poor, households than in extremely poor households (31.7 percent compared to 24.5 percent). Estimates of absolute numbers were also higher (approximately 70,000 compared to 53,000).³

³ This anomaly raises methodological questions. In fact, recent work by PRISMA suggests that the cutoffs used to define poverty and extreme poverty may be too conservative.

Table 2.7

**Prevalence of Chronic Malnutrition Among Children
Under Five in Poor and Non-Poor Households in 2000
(by geographical location)**

	Extremely poor	Other poor	Total poor	Non-poor
Total country	23.3	17.4	19.4	10.3
Lima	3.1	8.5	7.8	3.7
Urban Coast	14.3	12.1	12.5	4.3
Rural Coast	29.1	14.3	22.1	6.4
Urban Sierra	36.4	17.5	21.6	13.3
Rural Sierra	24.5	31.7	28.2	23.7
Urban Selva	28.6	17.8	20.6	8.5
Rural Selva	25.5	20.2	22.7	19.1

Health and other socio-economic factors also are important

A recent analysis of data from the 1992 and 1996 Demographic and Health Surveys provides additional insights into factors playing an important role in determining chronic malnutrition. According to this analysis, a child's weight at birth was one of the most important determining factors of chronic malnutrition in children from birth to 36 months of age (bolded entries in Table 2.8 signify this was an important variable in both the surveys). For children under six months, access to health services (in this case, access of the mother to prenatal care) and crowding (number of other children in the household) also were important factors. As children got older, health factors (access to sanitation services and whether children had had diarrhea in the last two weeks) and family social and economic characteristics (education of heads of households, education of care givers, quality of housing, source of light in households, and whether the first language of families was Spanish) assumed greater importance. Some factors many believed were important turned out not to be significant variables in either 1992 or 1996, including exclusive breast feeding and access to donated foods.

Table 2.8

**Determinants of Chronic Malnutrition Among
Children Less Than Three Years of Age**

Age of child	Significant Variables
0 a 6 months	<i>weight at birth</i> access to health services number of living children
6 a 12 months	weight at birth <i>number of living children</i> <i>level of education of household head</i> level of education of care giver <i>access to sanitation services</i> <i>sex of the child</i> age of care giver
12 a 36 months	<i>weight at birth</i> <i>number of living children</i> level of education of care giver <i>quality of housing</i> <i>access to sanitation services</i> <i>Spanish or not-Spanish speaking</i> <i>source of household light</i> Access to television child had diarrhea in last two weeks

Source: PRISMA 1999

Micronutrient Deficiencies

Other types of malnutrition relate to micronutrient deficiencies rather than to overall intake of calories and protein. Three micronutrients are considered most frequently – iron, iodine, and Vitamin A. Each has far-reaching implications for human health, growth, and development. Micronutrient status is hard to measure, because it often requires laboratory analysis, typically of blood. As a result, rates reported for such deficiencies usually refer to study populations, rather than to national samples.

Iron deficiency was Peru's major micronutrient problem at the middle of the 1990s (CENAN, 1996). Rates of iron deficiency anemia among children less than five years of age were estimated to be 53 percent. For women of reproductive age, the study by the Peruvian Institute of Food and Nutrition (CENAN) found rates of

45 to 50 percent. The prevalence of iron deficiency anemia also varied geographically: over 60 percent of children living in rural areas in the Sierra were affected, as were almost 75 percent of children living in the Selva. Younger children (between 6 and 23 months of age) also were more likely to suffer from moderate and severe anemia than older children (between 24 and 59 months).

Preliminary data from the 2000 ENDES survey suggest that the prevalence of iron deficiency anemia is decreasing within the country as a whole and within most regions (the major exception appears to be moderate anemia in the Sierra). The prevalence of iron deficiency anemia also appears to have decreased among all age groups of children less than five years of age (the exception is children between 48 and 59 months). The government's decision (Supreme Decree 004-96-SA) to require that all wheat flour produced in the country be fortified with iron (a policy change recommended in the 1994 Food Security Strategy), coupled with GOP health programs that distribute iron capsules to vulnerable populations, may have contributed to these improvements.

Vitamin A deficiency is another serious problem. The body's immune system cannot function well without adequate levels of Vitamin A. Lack of Vitamin A damages the surfaces of the skin, eyes, and mouth, and the lining of the stomach and respiratory system. A child with Vitamin A deficiency has more infections, which become more severe because the immune system is damaged. Vitamin A deficiency increases the risk that children will die or become blind; it is the most common cause of childhood blindness in the developing world. According to the Pan-American Health Organization, sub-clinical Vitamin A deficiency is a serious but reversible problem in Peru. The 1996 study by CENAN found that 38 percent of tested children under five suffered from Vitamin A deficiency, as did 15 percent of women of reproductive age.

Major progress has been made in reducing iodine deficiency in the country. Peru legislated the production and distribution of iodized salt in 1940. Still, little progress seems to have been until the mid-1990s. One study conducted in 1986, for example, estimated that goiter (which results from iodine deficiency) was endemic in 88 percent of the communities in the Sierra and Selva and that the average prevalence among school children in 130 provinces was 36 percent (ICN Report for Peru). Even in the early

1990s, only 60 percent of the population was estimated to consume iodized salt. By 1995, however, consumption of iodized salt in previously endemic areas had increased to over 80 percent (by 1997 consumption was up to 90 percent) and the prevalence of goiter among school children had declined to 11 percent. And by the end of the decade, some estimate that iodine deficiency has been virtually eradicated in the country.

Data Sources

Food availability – Most of the data in this section have been drawn from the databases of the Food and Agricultural Organization (FAO) of the United Nations. FAO's data come from individual countries, frequently their ministries of agriculture, but are adjusted using common standards, making the data suitable for cross-country comparisons. This is particularly important for estimates of food supplies. Many countries base their estimates of calorie availabilities on a more limited set of commodities, which results in underestimates of the amounts of calories available. Most of the FAO time series data begin in 1961, and some are available for as recently as 2000. The most recent year for which data are available on per capita calories, however, is 1996.

Food access – The analysis of income poverty in this section is based on data from four nationwide living standards surveys (1991, 1994, 1997, and 2000) undertaken by a Peruvian consulting firm – Instituto Cuánto – with financial support from USAID and other donors. Instituto Cuánto used data from the surveys to estimate two poverty lines. The first poverty line, used to estimate the number of extremely poor, was based on the cost of a country-specific food basket that met international requirements for energy and protein. This line was then scaled up to take into account necessary non-food expenditures. Households whose expenditures fell below this latter cut-off point were classified as poor. The analysis of unsatisfied basic needs is based on data from two nationwide household surveys conducted by the national statistics institute, INEI.

Food utilization – The analysis of chronic malnutrition among children under five years of age draws on data on nutritional

status collected as part of the series of demographic and health surveys supported by USAID/Peru.

Graphs – All graphs were prepared by the authors.

Maps – The map showing the distribution of chronic malnutrition among departments in 2000 was prepared by Fernando Chávez, USAID/Peru.

III. Potential Magnitude and Characteristics of Poverty in the Future

Demographics affect the magnitude, composition, and distribution of poverty. This chapter builds on Chapter 2, exploring what is likely to be the nature of the poverty challenge in the future.

3.1 Overall Demographic Trends

Projected downward trends in population growth rates for Peru are consistent with those for other countries at a similar stage of demographic transition, but they will not solve Peru's poverty problem

During the inter-census period from 1981 to 1993, the natural rate of increase in Peru's population averaged 2 percent annually.¹ The population growth rate, estimated at 1.75 percent in 2000, is projected to fall gradually to 1.6 percent between 2000 and 2005, and to 1.5 percent from 2005 to 2010.² In absolute terms, total population is projected to increase from 26 million in 2000 to nearly 28.2 million in 2005, an increase of 430,000 people annually (births less deaths and net emigrations). In 1999, the increase in population derived from 24.2 births and 6.3 deaths per 1,000 inhabitants, less 19,000 net emigrants.³ Projected population growth rates assume no abnormal disruptions or significant changes in public policy and programs.

How many people are poor or extremely poor, and how many will be poor or extremely poor in 2005 and beyond?

¹ Aramburú, Carlos Eduardo, "Dinámica demográfica y políticas de población en el Perú," in *IV Reunión Nacional Sobre Población*, AMIDEP, Peru, September, 1995.

² INEI - Dirección Técnica de Demografía y Estudios Sociales, *Implicancias socioeconómicas del crecimiento de la población 1995-2015*. Instituto Nacional de Estadística e Informática, Lima, 1995, p. 11.

³ Instituto Cuánto, *Perú en Números 1999*, Cuánto, Lima, 1999, p. 232, Table 4.16.

Chapter 2 documents the evolution of poverty and extreme poverty during the 1990s. From 1991 to 1997, poverty dropped steadily from 57.4 to 50.7 percent, but then jumped to 54.1 percent in 2000. Although the percentage of the population defined as poor was lower in 2000 than in 1991, the total number of poor rose from 12.6 million in 1991 to 13.9 million in 2000, reflecting the overall growth of population during the period. The proportion of the population in extreme poverty almost halved from 1991 to 1997, dropping from 26.8 to 14.7 percent, but since 1997 has remained virtually unchanged. The number of extremely poor people has fallen as well, from 5.9 million people in 1991 to 3.8 million people in 2000, reflecting the steep percentage decline.

The rise in the ranks of the poor since 1997 is consistent with the recessionary conditions that Peru has experienced in recent years. Contrary to what one might expect, the relative position of the poor may have begun to worsen as early as 1994. A recent World Bank study⁴ found that income distribution became more unequal between 1994 and 1997 in urban and rural areas. According to a 1998 GRADE study,⁵ the income share of the lowest-paid quintile working 30 hours per week or more dropped from 1991 to 1997, as did the total number of jobs they held.

Direct private sector investment has stagnated recently. Uncertainties surrounding the recent presidential elections contributed to a prolonged slowdown; it may take time before private investors drop their wait-and-see attitude. Given the time it normally takes for an investment decision to be converted into employment generation, the current lackluster prospects for private sector investment present a major obstacle to dynamic employment generation in the near if not the medium term.

In the absence of a sharp jump in political and economic confidence, poverty levels are likely to decline only modestly, if at all, between 2000 and 2005. If Peru restores political confidence quickly and pursues aggressive employment-generating private sector investment policies, it is conceivable that poverty rates could begin to decline significantly by 2002 and fall to about 38 percent of the

⁴ World Bank, *Perú: pobreza y desarrollo social 1994-1997*, Main Report, World Bank, Washington, D.C., 1999.

⁵ Saavedra, Jaime, *Crisis real o crisis de expectativas? El empleo en el Perú antes y después de las reformas estructurales*, GRADE, Lima, 1998.

population by 2005. On the other hand, boosting the labor productivity of the poor in more than modest amounts typically requires not only investment in physical capital but also improvements in the quality and targeting of education and health services. The productivity gains from such programs do not occur overnight, and can be inter-generational.

Although one hesitates to be sanguine about sharp drops in poverty in the near future, there is some evidence to suggest a more encouraging prognosis both for the maintenance of the decline in extreme poverty and for continued progress on that front.⁶ A World Bank study of growth and employment in Peru from 1994 to 1997⁷ suggests that labor force participation is key. Interestingly, labor productivity and real wages both remained flat during the period in question. How, then, did the very poor cope? The answer: by significantly expanding their participation in the labor market, primarily in urban areas. From 1994 to 1997, male work force participation increased by 2.3 percent, and female participation by almost 7 percent. At least in urban areas, then, greater participation in the labor market may be a viable formula for reducing extreme poverty, even though it is not up to the task, at least under current circumstances, of reducing overall poverty.

As the incidence of extreme poverty approaches single digits, it may be unrealistic to expect continuing high rates of decline. In Peru, as in all countries, there is a "core" level of extreme poverty that is relatively intractable. To reduce the core group of extremely poor, education and expansion of demand for semi-skilled labor will be essential – but, realistically, dropping the core rate of extreme poverty below, say, 7 to 8 percent, could take generations.

Poor households have more young people than non-poor households, which makes it more difficult for them to escape poverty

In 1998, an estimated one-third of Peru's population was under 15 years of age, down from over 38 percent in 1991-1992. As

⁶ According to ENNIV, the difference in poverty between 1991 and 2000 is 3.3 percentage points, while the difference in extreme poverty for the same period is 12 percentage points.

⁷ World Bank, *op. cit.*

Table 3.1 illustrates, in 1991-1992 there were proportionally more young people among the extremely poor than the poor, and proportionally more young people among the poor than the non-poor. The proportion of young in the entire population is projected to decline to about 23.7 percent by 2025 as Peru moves toward demographic maturity.⁸ Interventions accelerating reductions in fertility rates can also, over time, reduce the proportion of the population that is young.

Table 3.1

**Population Age Groups by Poverty Levels
(1991-1992)**

	Total	Non-poor	Extremely poor	Poor
Total	100	100	100	100
Age groups (%)				
0 - 14	38.3	28.0	40.7	52.7
15 - 64	57.1	66.0	54.9	44.9
65 and over	4.6	6.0	4.4	2.4
Average age	25.7	29.6	24.7	20.4
Median age	20.4	24.5	19.4	14.1
Relative dependency ²¹	0.8	0.5	0.8	1.2

Source: CONAPO. *Población y pobreza: políticas y dinámica demográfica*. Lima: Conapo, may 1996, p.39.

1/Relative dependency is the number of dependent persons (under 15 years and over 64 years) that depend on each economically active person. Greater relative dependency results in an increased number of dependents for persons in the active age category.

Table 3.1 also provides information on relative dependency by poverty level in 1991-1992. The dependency burden was highest for the extremely poor (1.23 dependents per active person), second highest for the poor (0.82 dependents per active person), and lowest for the non-poor (0.52 dependents per active person). The high dependency burden for the extremely poor, combined with low

⁸ INEI - Dirección Técnica de Demografía y Estudios Sociales, *Crecimiento de la población peruana: las nuevas generaciones*, Instituto Nacional de Estadística e Informática, Lima, 1998, p. 41.

earning capacity and high underemployment (and disguised unemployment) rates, portrays in bold relief the enormous difficulty for the extremely poor to break out of the "cycle of poverty."

The global demographics of poverty make its resolution daunting

The demographics of poverty outlined above point up the magnitude of the challenge to reduce poverty. The numbers of poor and extremely poor, both in absolute terms and as a share of total population, are alarmingly high. More than half of the existing population is poor, and 430,000 new souls are added to the rolls each year, each with a claim to basic health, education, and other social services, as well as the means to live an active and healthy life.⁹ During 2001, more than half of these new entrants will be members of families in poverty, and more than one-third members of families in extreme poverty. And all the new entrants will be dependents. With the addition of such a burden each year, Peru is hard-pressed to keep up with the cumulative challenge of enabling the poor and the extremely poor to escape from their plight. All of this argues for care and wisdom in the selection of anti-poverty policies and programs.

Reducing the population growth rate is an important means to reduce the number of peruvians in poverty

Changes in death rates and net emigration affect population growth rates, but the most important variable by far is fertility – that is, the number of live births per female of child-bearing age. Between 1991 and 1996, average fertility in Peru dropped from 4 to 3.5 (in urban areas the drop was from 3 to 2.8 and in rural areas from 6.2 to 5.6).¹⁰ The decrease was the primary contributor to the reduction in Peru's population growth rate during this period. Based on current trends, fertility is projected to drop to 2.5 by 2005. Available data are inadequate to permit accurate estimation of the relative contributions of specific causal factors to these decreases.

⁹ Estimates by INEI from ENAHO 97-IV and ENAHO 98-IV.

¹⁰ ENDES, 1991 and 1996.

Reproductive health and family planning, formal education, and urbanization are associated with reduced fertility levels

Reproductive health and family planning programs.

Reproductive health and family planning programs undoubtedly have played an important role in reducing fertility rates during the 1990s. Use of modern contraceptive methods nearly doubled from 1993 through 1999. Currently, contraceptive prevalence is 64.2 percent, of which 41.3 is with modern methods, and 22.9 percent with traditional methods. Use of permanent methods – tubal ligations and vasectomies – has increased significantly since 1993, with a 45 percent for the former and 64 percent for the latter. Even though these methods are increasing in absolute terms, they are decreasing in relative terms: they made up 22 percent of total contraceptive use in 1993, but 16 percent in 1999. Additionally, less invasive and more easily managed contraceptive methods (pills, injectables, and condoms, for example) are increasing in popularity as compared to more invasive methods (IUDs, for example).

The primary provider of reproductive health and family planning services is the Ministry of Health (MINSa). It offers integrated reproductive health services throughout both urban and rural Peru through hospitals (331), health centers (1,431), and health posts (4,827). Provision of these services is expected to expand as donors, including USAID, continue to support MINSa reproductive health and family planning programs.

Formal education. As Table 3.2 shows, fertility rates vary substantially by level of formal education. Interestingly, fertility rates have decreased significantly over the past decade within educational levels, with the greatest decreases taking place among the less educated. This result suggests that other factors are having a significant effect in reducing fertility levels – for example, the transfer of family planning and reproductive health information. Nevertheless, the table suggests strongly that the best means for reducing fertility levels is formal education, especially at basic and secondary levels. On average, completing primary education reduces fertility by 1.6 births, and completing secondary education provides a further reduction in births of 1.7.

Table 3.2
Fertility by Educational Level
(1990 - 1999)

	1990	1999
No education	7.1	5.9
Primary	5.1	4.3
Secondary	3.1	2.6
University	1.9	1.9

Source: INEI *Estado de la población peruana: 1999 - Situación del empleo urbano*, Lima, p. 15 (estimates).

Urbanization. The rate of urbanization is closely associated with decreases in fertility rates. This is not surprising since people can access education, family planning, and remunerated employment – all associated positively with decreased fertility – more easily in urban areas.

3.2 Geographic Dimensions of Poverty

As Table 3.3 illustrates, Peru is heavily urban. In 1999, over 72 percent of the population lived in cities, compared to just under 69 percent in 1990.¹¹ If current trends continue, over 73 percent of the population will be urban by 2005, and a full three-fourths by 2015.

Table 3.3
People Living in Urban and Rural Areas

Year	Total	Urban	Rural
1999	25.58 million	18.44 million	7.14 million
2005	28.16 million	20.64 million	7.52 million

Source: Enaho 98-IV.

Elaboration: Authors.

Fertility in rural areas is more than twice fertility in urban areas: 4.7 compared to 2.2. Despite this sizable difference, the net population growth rate of urban areas is almost double the net

¹¹ INEI - Dirección Técnica de Demografía y Estudios Sociales, *Estado de la población peruana: 1999 - Situación del empleo urbano*, Instituto Nacional de Estadística e Informática, Lima, 1999, p. 11.

population growth rate found in rural areas: 2.0 percent compared to 1.1 percent. The explanatory factor, of course, is rural-urban migration, especially of young adults. The upshot of the combination of high birth rates and the exodus of people of working age is significantly higher dependency ratios in rural areas than in urban areas. As Table 3.4 illustrates, 46.3 percent of rural people are dependent children and elderly people. In urban areas, the corresponding figure is 35.7 percent.

Table 3.4

**Urban and Rural Population Age Structure
(1999)**

Age groups	Urban	Rural
0 - 14	31.1%	41.2%
15 - 64	64.3%	53.7%
65 and over	4.6%	5.1%

Source: INEI. *Estado de la población peruana 1999. Situación del empleo urbano*. Lima, 1999, p. 10.

Historically, Peru's poverty, especially its extreme poverty, has been concentrated in rural areas.¹² During the 1970s and 1980s, approximately 40 percent of the rural population lived in extreme poverty, over twice the corresponding percentage for cities. With the deterioration in economic conditions in the late 1980s, the percentage of rural people who were extremely poor actually rose, and in 1991 was estimated at almost 50 percent.¹³ As Chapter 2 indicates, the 1990s represented an "improvement," with the percentage of the rural population in extreme poverty dropping to 36.2 percent in 1994, to 31.9 percent in 1997, and to 30.1 percent in 2000.

¹² Riordan, James T., Roberta van Haetten, Jorge L. Daly, Carlos Amat y León Chávez, Arlette Beltrán Barco, Rosario Gómez de Zea, and Gustavo Yamada Fukusaki, *Food Security Strategy for Peru*, USAID/Peru, Lima, 1994; Amat y León, Carlos, Arlette Beltrán, Miyaray Benavente, Antonio Chávez, Rosa Flores, Rosario Gómez, Josefina Huamán, and Gustavo Yamada, *Estrategia de seguridad alimentaria para el Perú*, USAID/Peru, Lima, 1994.

¹³ Instituto Cuánto, *Encuesta Nacional de Hogares sobre Medición de Niveles de Vida 1991*.

The presence of so many extremely poor people in rural areas makes it tempting to focus the attack on the problem there and, specifically, to look to increases in agricultural productivity as the appropriate programmatic response. In many of the areas in question, however, such a response arguably is second-best. As a rule, current population-land ratios, especially in the Sierra, are too high for an agricultural production strategy – by itself – to generate sufficient incomes to lift significant numbers of poor rural households above the poverty line. More than that, the resource base often is too fragile to support much additional population pressure, in any case. As a result, the solution to the plight of the extremely poor in rural areas must continue to involve their emigration from those areas. In fact, for those who remain in rural areas to be productive, it would be ideal if growth in the rural population not only ground to a halt, but declined. Peru's secondary and tertiary cities with economic potential are a natural place for emigrants from rural areas to go in search of economic opportunity. The challenge, of course, is seeing to it that the demand for labor in those cities is up to the task of absorbing immigrants in the numbers desired.

Realistically, it is unlikely that private sector employment will pick up significantly in the short run. If the incoming government succeeds in restoring calm to the political scene and regaining the confidence of private investors, however, it is not unreasonable to expect Peru to return to the buoyant GDP growth rates of the early 1990s within two or three years. More than that, with enlightened public policy it is not inconceivable to expect that growth to be spread throughout the country and to take place among relatively labor-intensive sectors such as agribusiness, manufacturing, construction, and tourism. This document returns to these themes in Chapter 5.

3.3 Implications of Past and Current Rates of Urbanization for Poverty and Extreme Poverty

Peru's cities currently are growing at 2 percent annually, which, in 2001, translated into a net increase of 377,000 urban inhabitants. At current dependency rates and labor productivity levels, approximately half of the net new entrants, about 190,000 people, will be job seekers. All new inhabitants will need housing and access to basic social services – electricity, potable water, sewerage, and

transportation and health services. Nearly one-third will be at an age to require basic or secondary (or technical/vocational) education. If current patterns hold, more than half could wind up living in Lima (in 1993, 30 percent of all migrants settled in the capital city).

None of these figures take into account the roughly 80,000 net new inhabitants in rural areas who, like their urban counterparts, also will require housing, education, and other basic social services. All other things being equal, if current rates of urbanization continue as projected, the incidence of poor and extremely poor people in rural areas will continue to grow. The problem takes on the starkest proportions in the rural Sierra, where the current population already greatly surpasses potential labor absorption capacity. From a pro-poor policy perspective, migration to cities from the rural Sierra not only must continue – it must accelerate.

For the rural poor and extremely poor, migration to the city is a good thing

Although urbanization does not come without problems, it generally implies a healthier and less impoverished lifestyle for the rural migrant, as well as for those left behind. All other things being equal, the probability of being poor is substantially less for a city dweller than for a rural inhabitant.¹⁴

A discussion of the role of secondary and tertiary market and service centers – and associated growth corridors – in stimulating broadly based economic growth and reducing poverty appears elsewhere in this document. A combination of decentralized urbanization and economic opportunity can facilitate market integration and efficiency and reduce market and non-market transaction costs; it can also induce optimum sustainable use of the natural resource base through enhancement of labor mobility. Decentralized development can also avoid diseconomies of agglomeration that often occur in primary cities in social and consumer goods and service provision.

¹⁴ Shack, Nelson, "La educación y la probabilidad de ser pobre en el Perú de hoy: aplicaciones de un modelo probit de maximoverosimilitud," in Webb, Richard, and Moisés Ventoella (eds.), *Pobreza y economía social: análisis de una encuesta – ENNV-1997*, Instituto Cuánto, Lima, 1999.

From the perspective of the rural to urban migrant, the availability of economic opportunities in secondary and tertiary cities and towns reduces the costs and risks associated with migration. It also can help preserve family and social relationships by ameliorating the social disintegration associated with poverty-driven out-migration. Upon finding urban employment, the incoming household enjoys an increase in income. In rural areas where out-migration exceeds net workforce growth, the income of non-migrating rural workers can be expected to rise as well. At a minimum, the process of out-migration can help reduce the rate of increase in extreme poverty. As an additional benefit, migration often increases remittances to rural areas. Rural-to-urban migration also improves individual and family access to social services.

For rural migrants to become productive members of the urban labor force, they need at least a basic education. Vocational and technical training may also become prerequisites in the medium term. Somewhat ironically, therefore, any anti-poverty strategy that attempts to harness the development potential of urbanization must attach high priority to the expansion and improvement of basic education in rural areas, especially rural areas of poverty and extreme poverty.

The Achilles heel of the argument for urbanization is the capacity of cities to provide jobs rapidly in the numbers required. For that to happen, conducive public policy is essential. Among other things, conducive public policy calls for increased and better targeted public sector investment in basic productive infrastructure – roads, electricity, and water – to facilitate private sector business activities. But this brings the discussion to the point of assessing the various constraints to having an impact on poverty, which is the task of the next chapter.

IV. Constraints to Attacking Poverty and Food Insecurity

Peru evokes superlatives to describe its panorama of contrasts. Attacking poverty and food insecurity is a major challenge. A broad array of obstacles constrains the country's capacity to address effectively the magnitude and pervasiveness of the problems described in the two previous chapters. Nevertheless, Peru is not without instruments to address those constraints.

Peru enjoys generous natural resource endowments, but the fragility of its numerous ecosystems requires especially careful management for sustainable productive use. Achieving sustainable management is an urgent national priority. Peru's diverse and imposing physical topography and resulting dispersed resource base engender a multiplicity of problems affecting economic and social integration, the development of efficient marketing systems, and the adaptation of technology to highly variable micro-climates. Still, these very characteristics often present unique economic opportunities, many of which present special technical, investment, managerial, and organizational challenges.¹

Peru also is the depository of an especially rich social, cultural, and artistic heritage.² Extant manifestations of this heritage offer largely untapped economic opportunities. At the same time, societal manifestations of this heritage present special challenges for achieving social and political integration, for preparing and maintaining a productive work force, and for building an adequate cadre of public and private sector managers to respond effectively to the opportunities for rapid, broad-based economic development in today's global economy.

¹ Riordan, James T., et al., *Food Security Strategy for Peru*, USAID/Peru, Lima, 1994; Amat y León, Carlos, et al., *Estrategia de seguridad alimentaria para el Perú*, USAID/Perú, Lima, 1994.

² Aramburú, Carlos, and Carlos Figueroa, "El desafío de enfrentar la heterogeneidad de la pobreza extrema en el Perú," in Vásquez, Enrique (ed.), *¿Cómo reducir la pobreza y la inequidad en América Latina?*, Programa Latinoamericano de Políticas Sociales – IDRC, Lima, 1999, pp. 73-98.

This chapter reviews the nature and magnitude of major constraints to attacking poverty and food insecurity, and describes challenges and opportunities for overcoming them. Macro-constraints and opportunities include economic policies, as well as social, political, and institutional factors, with some of the latter deeply imbedded in Peru's political, social, and institutional heritage. Past trends in key productive and social sectors are examined, along with current conditions and opportunities.

Together with Chapters 2 and 3, this chapter contributes to the information base needed to formulate strategic directions to make informed choices among competing policy and investment alternatives for meeting the enormous poverty-food security challenge. The strategy and choices, along with rationales for setting priorities, appear in Chapter 5.

4.1 Economic Policy Constraints

When Alberto Fujimori became president in 1990, the government instituted a package of macroeconomic policies to address what arguably was Peru's most severe economic crisis in the twentieth century. As the 1994 Food Security Strategy pointed out, by 1990 some two decades of heterodox, anti-market, deficit-spending, and erratically applied economic policies had precipitated runaway inflation, a free fall of real incomes, widespread business failures, and massive job losses. Uncontrolled terrorism and rapid growth of the coca economy contributed to – and to a not insignificant degree resulted from – the growing economic chaos and social disintegration that occurred during the closing years of that period.

Major components of the 1990 macroeconomic stabilization policy package included: 1) strict monetary policies to eliminate inorganic emissions; 2) orthodox fiscal policies to reduce public sector deficits, including tax simplification and improved collections, elimination of most subsidies and price controls, and re-insertion into international financial markets; and 3) market-based foreign exchange policies, with discretionary Central Bank authority to stabilize fluctuations through the marketplace.³ These economic

³ Seminario. Bruno, *Reformas estructurales y política de estabilización*, Centro de Investigación de la Universidad del Pacífico – Consorcio de Investigación Económica, Lima, 1995.

policies were accompanied by: 1) structural reforms to open and deregulate economic activity, redefine the public sector's role, and privatize state-owned productive enterprises; 2) increased public sector social expenditures financed from improved tax collections and privatization income; and 3) an aggressive counter-terrorist campaign.⁴

By the end of 1992, economic and structural reforms had successfully stabilized the economy and restored the confidence of the international financial community. From 1993 to 1997, inflation was stabilized to international levels, average annual GDP grew by 7.2 percent, and GDP *per capita* rose by 5.4 percent. This robust GDP growth was financed in large measure by inflows of foreign private capital – U.S. \$14,141 million during the period, or an average of U.S. \$2,828 million annually, equal to 5 percent of average annual GDP. From 1990 to 1992 total foreign private capital inflows had only reached U.S. \$82 million.⁵ High foreign capital inflows, especially short-term capital, stimulated substantial increases in private sector credit from the financial system, from U.S. \$718 million annually in 1990-1992 to U.S. \$1,779 million annually during the 1993-1997 period.⁶

Beginning in 1998, international financial turbulence triggered a deceleration of Peru's robust economic growth. That year, annual private sector financing flows dropped by 23 percent. A 58 percent contraction of financial system credit to the private sector had an even greater negative impact, bringing outstanding credit in line with sharp liquidity reductions as short-term foreign capital abandoned Peru.⁷

Although international financial turbulence undoubtedly triggered the economic deceleration, many argue that government policy prolonged and deepened the recession. Some analysts suggest that economic policies to stabilize the exchange rate have, in fact, resulted in overvaluation of the Peruvian currency. Overvaluation

⁴ Iguñiz, Javier, "La estrategia económica del gobierno de Fujimori: una visión global," in Crabtree, John, and Jim Thomas (eds.), *El Perú de Fujimori*, Universidad del Pacífico – Instituto de Estudios Peruanos, Lima, 1999, pp. 15-43.

⁵ Information obtained from the Ministry of Economy and Finance.

⁶ Information obtained from the Ministry of Economy and Finance.

⁷ Information obtained from the Ministry of Economy and Finance.

makes exports less competitive in international markets and local products less competitive with imports in national markets. Under such conditions, one would expect the trade gap to widen. Compared to 1995-1998, however, Peru's 1999 trade gap diminished notably (from 27 to 13 percent of imports), as import value decreased and export value increased. The lower value of imports likely resulted from a sharp drop in imports of capital goods (due to sharply reduced foreign capital inflows). Additionally, the recovery of the fish meal industry after the scourge of El Niño, together with improved international prices for some major mining exports, likely explains much of the increased value of exports.

Whether the exchange rate is significantly overvalued is open to interpretation. Still, unusually high interest rates and the exceedingly low ratio of loans to liquidity in the banking system suggest that there is a perception by bankers, if not of overvaluation *per se*, of uncertainty about the direction of future exchange rate movements. Unexplained delays in planned privatizations certainly have had a negative impact on foreign capital inflows.

Economic uncertainties during 1998-2000, combined with the political turmoil and social discontent surrounding the 2000 election, have had a major impact on private sector lending. Even though the liquidity of the financial system has been relatively high, the banking system is hesitant to lend aggressively in what it perceives to be a highly uncertain economic climate. To illustrate, one source at the Banco de Crédito, Peru's largest bank, indicates that loan levels are only a fraction – 10 percent – of what financial liquidity would permit.

The Ministry of Economy and Finance (MEF) and the Central Bank continue to project relatively comfortable real GDP growth rates for 2001-2005, in the neighborhood of 5 to 6 percent for the period as a whole.⁸ These projections assume that private sector investment will recuperate to the high levels of the mid-nineties. Given the guarded investment climate at present, and the potential for disillusionment as the new government struggles to meet the high expectations of voters, these projections are questionable, at least for the next couple of years.

⁸ Information obtained from the Ministry of Economy and Finance.

Did economic development in the nineties favor the poor?

The robust economic performance of 1993-1997, when foreign capital inflows were plentiful, followed by the economic contraction of 1998-1999, when foreign capital inflows dropped dramatically, highlights the opportunities and risks associated with a growth model based heavily on capturing foreign savings. Financing a larger share of total investment with internal savings would reduce the risks associated with the serendipity of foreign savings inflows. An apparently overvalued exchange rate makes Peruvian exports less competitive and increases the cost of credit. Both reduce profitability and the generation of business savings for reinvestment. Thus, economic policies that lean toward an overvalued exchange rate (or that create uncertainties about future exchange rate movements) expose Peru to hesitancy by the private sector to invest, and add to the general level of economic uncertainty, with the consequent absence of job creation that benefits the poor. When political uncertainty and social instability are added to this mix of policies, it is a recipe for results that are neither pro-growth nor pro-poor.

Direct foreign investment has favored the communications (26 percent), mining (19 percent), and energy (17 percent) sectors, all capital-intensive industries.⁹ Nevertheless, since 1992 cross-sector multiplier effects appear to have resulted in balanced growth among all sectors. That said, there are indications that some traditionally relatively labor-intensive sectors now generate fewer jobs than they have done in the past. For example, in 1990, a year of depressed economic conditions, the manufacturing sector contributed 90 percent of the jobs it had in 1979. Today, manufacturing contributes less than two-thirds as many jobs as in 1979.

From Peru's pattern of growth during the last decade, it is safe to infer that although the country's economic development process may not have discriminated against poor Peruvians, it was not actively pro-poor. Although macroeconomic stability and robust GDP growth are necessary, they are not sufficient to achieve rapid declines in poverty and food insecurity. Although it has not been

⁹ Information obtained from the Ministry of Economy and Finance.

the only determinant, the failure of the government to include pro-poor targeting in the economic policy mix has contributed to inadequate job creation for Peru's poorest people, increased inequality of distribution of income between the rich and the poorest, and, especially as the economy declined, increasing food insecurity.¹⁰ It is true that the government has relied heavily on food assistance – however, as discussed below, such programs generally have failed to reach the poorest of the poor.¹¹ And even if they had, even well-targeted food assistance is ultimately only a palliative. It does not resolve the underlying plight of the impoverished – namely, the lack of productive employment opportunities.

Employment generation and income distribution in the nineties

During 1994-1997, Peru created 1.3 million jobs, mostly in the informal urban sector.¹² Urban male participation rates increased from 75.6 percent in 1994 to 79.9 percent in 1997. For urban females, the rate increased from 45.2 percent to 53.1 percent. Over two-thirds of new job creation took place in the informal urban sector, the primary employment base for the poor. Taken at face value, this growth pattern appears to be pro-poor. Nevertheless, closer examination suggests that the poorest of the poor did not share in the employment growth in question.

As Table 4.1 indicates, from 1991 to 1997 the relative participation by, and total number of jobs generated for, the least remunerated (first) quintile of full-time (more than 30 hours/week) urban workers actually declined.¹³ In contrast, participation by those in all other quintiles increased in absolute terms, and participation by those in the three highest quintiles increased in relative terms as

¹⁰ Saavedra, Jaime, *Crisis real o crisis de expectativas? El empleo en el Perú antes y después de las reformas estructurales*, GRADE, Lima, 1998.

¹¹ Vásquez, Enrique, and Gustavo Riesco, "Los programas alimentarios que 'alimentan' a medio Perú," in Portocarrero, Felipe (ed.), *Políticas sociales en el Perú: nuevos aportes*, Red para el Desarrollo de las Ciencias Sociales en el Perú, Lima, 2000.

¹² World Bank, *Perú: pobreza y desarrollo social 1994-1997*, Main Report, World Bank, Washington, D.C., 1999.

¹³ Saavedra, Jaime, *op. cit.*

well. The same study found that inequities in income distribution worsened. As a rule, therefore, it appears that the poor who rose out of poverty were those closest to the top. At the same time, the status of those lower on the scale may actually have worsened. Thus, although the case could be made that the growth policies of the nineties were pro-poor in intent, it cannot be claimed that the policies succeeded in reaching the poorest of the poor. This is not to suggest that these policies were misguided. Rather, the opportunity now exists to apply lessons learned during the nineties in crafting a policy mix that permits the poorest of the poor to *participate disproportionately* in future growth.

Table 4.1

**Evolution of Urban Employment Quality in Terms
of Monthly Income
(1991 and 1997)**

Real monthly income (in June 1997 soles)	1991 Jobs (thousands)	1991 Jobs (%)	1997 Jobs (thousands)	1997 Jobs (%)
Under S/ 217	1,049	23.1	989	17.8
From S/ 217 y S/ 408	1,166	25.7	1,184	21.3
From S/ 408 y S/ 666	1,049	23.2	1,353	24.4
From S/ 666 y S/ 1,117	747	16.5	1,142	20.6
Over S/ 1,117	521	11.5	879	15.9
TOTAL	4,532	100.0	5,547	100.0
Gini Co-efficient		0.462		0.452

Source: Saavedra, Jaime. "¿Crisis real o crisis de expectativas? El empleo en el Perú antes y después de las reformas estructurales." Documento de trabajo 25, Grade, 1998, p. 39.

Elaboration: CIUP

At least in part, the increased inequality of income distribution during the nineties stems from relatively high returns to real estate and financial resources, two fields of income generation that certainly are not pro-poor. During the rapid growth years of 1994-1997, the influx of foreign capital energized markets for real estate and financial instruments, generating high untaxed gains for shareholders and investors. A significant share of foreign capital also went to acquire existing enterprises, especially privatized enterprises. Such

investment normally generates few, if any, jobs for the poor. In some privatizations the result may be net job losses.

According to a recent World Bank study, a majority of the jobs created during the nineties are precarious in character.¹⁴ Most new jobs are primarily in the informal sector, where workers do not have employment contracts. Workers in the formal sector have contracts, but a significant number are short-term and include neither retirement nor health insurance. In sum, employment may have risen in the nineties, but at the cost of increased job insecurity for many wage earners. The upshot is that many poor people must bear the burden not only of low incomes but of increased job insecurity as well.

Employment trends for the poor during 1999 and 2000 are discouraging. During 1999, urban employment dropped by at least 5 percent in firms with 10 or more workers.¹⁵ Although employment did not drop quite so rapidly in 2000, for the growing pool of the poor who are looking for work, the overall panorama is not particularly encouraging.

Are the poorest of the poor better off today than in 1993?

Household survey data show clearly that the percentages of the total poor and of urban extremely poor have declined significantly since 1993. The data also show that the rural poor and extremely poor participated very little in these better times. Even more disturbingly, the poorest of the urban poor may not have participated significantly in the rise out of poverty. Such a result appears to be inconsistent with the pace of new job creation, especially in the informal sector, during this period. Part of the apparent inconsistency may lie in the measurement of poverty by family and by payment of wages to individuals.

According to a 1998 ILO study, between 1994 and 1996 urban family incomes increased by 7.2 percent in real terms, while urban family labor incomes grew by 7.8 percent (labor income

¹⁴ World Bank. *op. cit.*

¹⁵ El Comercio, July 20, 2000, p. B2, referencing the Ministry of Labor May Statistical Report.

represents two-thirds of total family income).¹⁶ The study concludes that increased family incomes likely resulted from greater participation by family members in the labor market: either more family members worked or those with jobs worked longer hours. These findings raise the question of what happened to families without increased employment. When taken together with the lowest wage-earners' low labor market participation reported above, combined with increased inequality in the distribution of urban income, the findings suggest a conclusion not favorable to Peru's poorest working families. In short, the inference is that the poorest of the poor may have become even more impoverished during the nineties, even as the lot of the less poor may have improved. This undoubtedly is true for most of the rural poor. If also true for the poorest of the urban poor, it has important policy implications.

What are the prospects for the poor today as compared to 1994?

The 1994 strategy presented 10 "legacies" and "other concerns" that stand in the way of rapid improvements in the plight of the poor. Below, the country is graded for the degree to which it has resolved these legacies and concerns since 1994.

Legacies

- Inconsistent economic policy: Initial marked improvement with recent backsliding (Grade: B).
- Rent-seeking behavior: Causal conditions largely unchanged (Grade: C).
- Unpredictable rules of the game: Initial improvement with recent backsliding (Grade: C).
- Weak institutions: Unchanged or worse, with few exceptions (Grade: D).

¹⁶Saavedra, Jaime. *Empleo, Productividad e Ingresos en el Perú: 1990-1996*. OIT, 1998.

Other concerns

- ❑ Problematic financing of future fiscal expansion: Generally unchanged (Grade: C).
- ❑ Very high current account deficit: Continuing problem and may worsen (Grade: C).
- ❑ Exports limping badly: Improved but highly dependent on mining and fisheries (Grade: C+).
- ❑ Financial sector is fragile: Continuing problem, but for different reasons (Grade: C).
- ❑ Extremely skewed income distribution: Apparently worsened (Grade: D).

The report card is not good, despite favorable grades for most macroeconomic performance indicators, at least until 1998. Does this mean government policies are anti-poor? The answer: a qualified no. On balance, government growth policies have been appropriate. Still, the overall policy mix has suffered from failure to re-dynamize sectors such as agriculture, tourism, and labor-intensive manufacturing, expanding the poor's participation in growth.

What are the prospects for the economy and for the poor?

The Central Bank has projected export-led GDP growth at 4 to 5 percent annually up through 2005 as a result of private sector investments in mining and energy as well as new investment commitments linked to revitalized privatizations and concessions.¹⁷ Realistically, it is unlikely that growth of that magnitude can be achieved, at least in the short term. The recent downturn in private investment and the hesitancy of the banking system to expand lending make it unlikely that exports will achieve projected levels. Stagnant consumer demand will also make it difficult for the domestic economy to recharge its batteries on its own. On balance, the

¹⁷ Information obtained from the Ministry of Economy and Finance.

following conclusion from the 1994 Food Security Strategy is equally applicable today:

"The bottom line of this discussion is that the economic policy mix of the current government may require modification if it is to improve income distribution and lower the mind-boggling levels of unemployment and underemployment that currently characterize the Peruvian economy. Unless these structural problems are addressed, broadly based (and sustained) economic growth will remain illusory. The combination of the disparity between market and parity rates of the sol and the artificially high costs of investment financing favors the continuation of Peru's historical pattern of growth: narrowly based export industries that are capital-intensive in character and, if anything, protect profits by squeezing wages. The policy package must be altered to reverse the incentives against the development of potentially competitive labor-intensive industries – which, in the final analysis, boils down to raising the productivity of labor."¹⁸

The macroeconomic condition of Peru – setting aside recent excessive deficits in the public sector current account – continues to be basically sound. In the absence of other negative factors, Peru should be able to manage the economic vulnerabilities described above. Unfortunately, other negative factors are serious enough to derail its capacity to resume rapid growth and to enhance the participation by the poor in that growth. The next section looks at these other factors.

4.2 Social, Political, and Institutional Constraints

Over the past decade, Peru demonstrated that it has the policy know-how and implementation capacity to overcome economic chaos rapidly and move forward on a path of dynamic growth within a stable macroeconomic environment. Nevertheless, broad participation in economic growth has not taken place. In fact, the divide between the "haves" and the "have-nots" appears to be growing. Even more problematic is the loss since 1998 of much of

¹⁸ Amat y León, Carlos, *op. cit.*, p. III-9.

the economic momentum and dynamism of the middle years of the nineties. Adverse international economic and financial conditions undoubtedly helped precipitate recent poor growth performance, but Peru must look inward to find the primary causes. The country has the basic infrastructure, natural resource base, technical know-how, the information base, and labor pool required to set forth on a path of dynamic long-term growth with equity. These factors are the "hardware" required. Unfortunately, the "software" – compatible and effective social, political, and institutional structures and systems – suffer from a number of functional and operational difficulties that interfere, often erratically, with the effective and efficient use of available factors of production. This section highlights some of Peru's more serious "software" constraints.

Social constraints

Large numbers of poor are endemic to Peruvian society. As a society, the "have nots" tend to accept their fate, and the "haves" tend to accept that large numbers of poor always will exist. In fact, the poor serve as a ready source of supply of domestic workers and readily available labor for menial jobs. Relationships between haves and have-nots largely are shaped by the resulting "hand-out" mentality of a highly paternalistic society, with the haves offering handouts and the have-nots seeking them. This socially ingrained relationship between the rich and the poor also has become deeply ingrained in the political system and in institutional arrangements and approaches, both public and private.¹⁹

Implicit in the paternalistic mentality is an approach to "helping" the poor that, albeit perhaps inadvertently, perpetuates poverty with low-productivity work. In other words, precarious domestic and other menial employment, as well as food assistance and similar social programs, may alleviate the most serious privations of impoverishment, but do so without restoring dignity and basic needs security to the poor through resolution of the basic underlying constraint – namely, the lack of long-term productive employment opportunities. The result is that the poor stay poor in terms of

¹⁹ Vásquez, Enrique, and Gustavo Riesco, *op. cit.*, presents the hypothesis that the state has spun a web of public institutions to give it a close relationship with 10 million people.

financial status, basic needs security, and personal dignity. The paternalistic mentality of both the haves and the have-nots is reflected in government policies that seek to better the plight of the poor through direct food assistance, rather than through policies and programs that encourage aggressive private sector investment in pro-poor long-term productive employment generation activities. Past terrorism and the continuing specter of social instability and unrest are inevitable responses to policies offering short-term fixes that do not restore personal dignity and basic needs security. The latter requires aggressive policies to facilitate private sector investment to generate long-term, rapidly expanding productive employment opportunities.

Political constraints

Since independence, Peru's constitution has called for a democratic system of government. Nevertheless, the country has seen the sanctity of its constitution and democratic systems violated regularly, usually by military leaders, but also by civilian governments intent on perpetuating positions of political power and privilege. Frequent violation of constitutional provisions has done much to weaken respect for and commitment to democratic institutions and constitutional processes.³⁰ Lack of respect for and commitment to democracy and the rule of law has engendered an atmosphere of political polarization and intolerance. It also has created low expectations that members of the government in power will honor the rule of law and exercise personal integrity. The politics of compromise and of seeking the common weal are largely absent. The populace generally accepts manipulation of the rule of law as the prerogative of a sitting government.

Paternalism also is an intrinsic cultural characteristic of relations between national and local governments and local private sector organizations and groups. Local (municipal) governments have existed throughout the history of the Republic. Despite sporadic attempts to strengthen them, however, mechanisms do not exist to

³⁰ De Belaúnde, Javier, "Justicia, legalidad y reforma judicial en el Perú: 1990-1997," in Crabtree, John, and Jim Thomas (eds.), *El Perú de Fujimori*, Universidad del Pacífico - Instituto de Estudios Peruanos, Lima, 1999, pp. 299-352.

generate significant local public revenues and to make local public sector expenditure decisions independently of central government authorities.²¹ The decade of the nineties fortified the culture of central government paternalism. Erosion of local government autonomy accelerated and deepened. The absence of local authority to tax, together with increasingly restricted authority to charge user fees for services, continues to severely limit local government capacities to take the initiative in addressing poverty and food security problems.

Allocation of central government resources to municipalities is largely a political spoils system.²² This makes it quite difficult, if not impossible, to fund local solutions to local problems, including poverty and food security problems. Although a number of central government institutions have local field offices throughout the country, they operate without financial and operational autonomy, and generally reflect the paternalistic approach to local financial autonomy.

Institutional constraints

The social and political constraints noted above spawn and perpetuate weak public sector institutions. With few exceptions, the finances and the managerial and professional staff of public institutions tend to wax and wane as governments change. An institution's fate often has little to do with performance or operational necessity, but rather with political motivation. Still, the political risks of eliminating lower-level positions make it rare that public institutions are abolished outright; rather, they are reorganized, relegated to shell status, or merged with other institutions that assume their responsibilities.

Repeated institutional tinkering results in a hodgepodge of overlapping, confusing, diffused institutional responsibilities and functions, ever-greater centralization of public decision-making authority and practice, and serious operational inefficiencies.²³ Many

²¹ Planas, Pedro, *La descentralización en el Perú republicano: 1821-1998*, Municipalidad Metropolitana de Lima, Lima, 1998.

²² Schady, Robert, *Seeking Votes: The Political Economy of Expenditures by the Peruvian Social Fund (FONCODES), 1991-1995*, World Bank, Washington, D.C., 1999, p.30.

²³ Zas, Johnny, *La descentralización ficticia: Perú 1821-1998*, Universidad del Pacífico, Lima, 1998.

public sector managers dedicate significant time and energy to turf protection instead of institutional performance. This tradition of institutional instability and vulnerability exacerbates political polarization and discourages capable professionals from entering public service.

To illustrate, responsibilities for food assistance are diffused among more than 11 institutions or programs attending to 10 million people.²⁴ Under such circumstances, it is virtually impossible to develop coherent long-term food assistance policies, and to implement them within the framework of a consistent food security strategy. In such an institutional environment, influence peddling and political favoritism are the norm at the expense of managerial effectiveness and operational efficiency. Until order is restored to the institutional structure for achieving food security, and until clear responsibilities are assigned under a unified authority shielded from a political spoils system, food assistance will continue to be a largely misused resource.

4.3 Productive Sector Constraints

This section discusses major constraints that limit performance of Peru's productive sectors in addressing poverty and food insecurity. It first examines constraints to non-agricultural productive sectors and then looks at the agricultural sector.

4.3.1 Non-agricultural Productive Sectors

Important non-agricultural productive sectors in Peru include mining, fisheries, energy, and communications, which are relatively capital-intensive, and manufacturing, commerce, and tourism, which are relatively labor-intensive. As discussed above, the Peruvian economic growth model of the nineties relied heavily on foreign capital inflows for both direct investment and financial system liquidity. The model favored growth primarily in capital-intensive sectors – for example, mining, energy, and communications. Cross-sector multiplier effects also stimulated robust growth in traditionally

²⁴ Vásquez, Enrique, and Gustavo Riesco, *op. cit.*, analyzes these 11 institutions and programs, tracing out the multiplicity of programs and the lack of coordination among them.

more labor-intensive sectors such as manufacturing, commerce, and agriculture.

Despite impressive overall economic performance during 1993-1997, there are inescapable signs that, since then, Peru has become relatively less competitive in the global economy.²⁵ Compared to many Latin American and Southeast Asian countries, Peru has significantly lower private domestic savings rates, excessively high interest rates, and high fixed costs of doing business, especially labor and business taxes.

Evolution of Performance

The rapid growth model of the mid-1990s relied on substantial foreign capital inflows, including both short- and long-term capital. Most of the long-term capital (nearly two-thirds of total inflows) was invested in relatively capital-intensive export-oriented industries, especially communications, mining, and energy. Short-term foreign capital also flowed into the financial system, permitting rapid expansion of credit to productive sectors. A major share of the credit expansion of this period financed capital goods imports, not only to capitalize the communications, mining, and energy sectors, but also to modernize manufacturing, construction, and commerce.

Cross-sector multiplier effects ensured that most sectors enjoyed good growth performance from 1993 to 1997. The construction sector grew at 16.3 percent annually, while the mining, manufacturing, commerce, and agriculture sectors grew at 8.3, 7, 8.3, and 8 percent, respectively.

Peru created 1.3 million jobs during 1994-1997, which at first glance appears to be quite favorable. The foreign capital investment per job created was quite high, approximately U.S. \$12,000 per job, suggesting that most capital investment went to relatively capital-intensive segments of the economy or to labor-saving plant and equipment modernization. A major share of investment in commerce, for example, went to relatively capital-intensive modernization of retail facilities. Modernization of the construction industry had similar effects on the relative demand for unskilled labor. The growth of non-traditional export-oriented agro-

²⁵ The evolution of the terms of trade shows this.

industries also relied on relatively high capital investment in plant and equipment per job generated.

Peru's much lower overall economic growth performance since 1998 is strongly associated with abrupt drops in foreign capital inflows and withdrawal of foreign short-term capital from the banking system. The latter precipitated abrupt credit rationing, increased interest rates, and deteriorated repayment performance.

Most of the national employment generated during 1994-1997 occurred in Lima, where the share of the population that is poor and extremely poor is lowest. Precisely because the robust economic growth of the mid-1990s was concentrated in Lima and was strongly linked to foreign capital and management inputs, economic linkages with, and multiplier effects on, the economy outside Lima were relatively weak. Although the central government expended funds on social programs outside Lima, such income transfers typically produce weak multiplier effects on local economies. Likewise, public sector investment in decentralized economic infrastructure generally exhibits strong multipliers only to the extent that it induces increased private sector investment.

All other things being equal, private sector economic growth in secondary cities would induce greater multiplier effects, including job creation, in surrounding tertiary market centers and in primary production hinterlands than the more economically remote growth process that is occurring in Lima. For Peru's future growth to be more inclusive, it is essential that policies and programs take into account the potential benefits of the spread of growth into the interior of the country.

Current Constraints and Prospects for Resolution

As one can conclude from the discussion above, a fundamental constraint to the rapid and effective implementation of inclusive, decentralized growth in the future is the heavy geographic concentration of wealth, economic activity, and political power in Peru.

Historically, Lima has been the center of wealth and economic and political power in Peru, and public sector spending patterns have been skewed heavily toward reinforcing the city's economic and political hegemony. Overall, the macroeconomic policies and

public expenditure decisions of the nineties reinforced Lima's economic and political dominance. For virtually all public investment and most private investment outside Lima, management decisions have been made and financial control exercised from Lima, or from even more remote foreign corporate headquarters.

Lima is the Rome of Peru: all economic and physical roads lead to it. Transportation infrastructure and transport systems tend to funnel goods and people through the capital city. Most significant inter-provincial economic and financial transactions are linked through Lima and are controlled there. A major share of foodstuffs consumed outside local markets passes physically through Lima. Prices for most goods and services in Peru are formed in Lima.

During the 1990s, historical patterns of economic and political hegemony not only continued but appear to have worsened. Regional governments were abolished and replaced by central government control; already weak municipal autonomy eroded further.²⁶ Local control over and management of public revenue collections and expenditures virtually disappeared;²⁷ tax- and revenue-based public sector bonding authority is exclusively a central government prerogative.

The disproportionate spatial distribution of economic activity and control of resources, and the pervasiveness of the central government in economic activities, has led to disproportionate human migration to Lima and proliferation of rent-seeking behavior both in and outside of Lima.²⁸ The existing economic and social structure of Peru manifests classic symptoms of economic and political hegemony: 1) for metropolitan Lima, serious and growing diseconomies of agglomeration overburden economic and social infrastructure and services, resulting in a deteriorating quality of life for rich and poor alike; 2) for the periphery, including secondary and tertiary cities and their respective hinterlands, underused factors of production exhibit low productivity and profitability; excessive economic and political dependency, and pervasive rent-seeking behavior. Weaknesses in forward and backward linkages are endemic between intermediate cities and their primary production hinterlands,

²⁶ Zas, Johnny, *op. cit.*, p. 261.

²⁷ Planas, Pedro, *op. cit.*, pp. 565-566.

²⁸ The total population of Peru is 25.7 million, of which approximately one-third live in Lima.

on the one hand, and external and internal markets, on the other, perpetuating poverty and economic under-performance.²⁹ These conditions in turn lead to: 1) continued unbalanced growth; 2) growing inequities in income and wealth distribution, not only between rich and poor but also spatially between Lima and the rest of the country; 3) declining domestic re-investment; and 4) ever-increasing dependence on foreign investment for economic growth. These realities increase exposure to externalities that undermine economic stability and make the challenge of facilitating inclusive, employment-generating economic growth all the greater.

To reverse Lima's economic and political hegemony, Peru needs a consistent set of policies and programs to tip the balance toward the interior of the country, stimulating private sector business investment both in its secondary and tertiary cities as well as in the hinterlands that feed into them. Realistically, for such policies and programs to be effective, they must not only neutralize the current bias toward Lima but shift it consciously outward.

Major problems that constrain economic and political decentralization toward Peru's intermediate cities and their respective hinterlands include:

High non-market transaction costs for decentralized businesses

Non-market costs associated with setting up and operating formal business enterprises generally are high in Peru, particularly outside Lima. Many permits require the approval of several government agencies; processing of permits, which can be tedious and time-consuming, often must take place in Lima. "One-stop shopping" for such services has yet to be put in place, especially outside Lima. Such a change in policy could lower non-market transaction costs significantly.

High market transaction costs for decentralized businesses

Businesses outside Lima find it difficult to obtain market

²⁹ Kahatt, Farid, *Sociedad civil y gobernabilidad democrática en el Perú*, documento interno, 1999, p. 27.

information and access domestic and international markets, both physically and transactionally. Inadequate legal services and an absence of efficient contract enforcement mechanisms, especially outside Lima, add to the costs and risks of conducting business at arm's length. Maintenance of product quality and consistency generally is more costly outside Lima due to poor roads and inadequate or inappropriate economic infrastructure, including transportation services, electricity, warehousing, and so forth. In the absence of conducive policies and adequate economic infrastructure in areas with growth potential, high costs will continue to discourage business investment in the interior of the country.

Deficiencies in decentralized social and consumer services

Without adequate social infrastructure, including health services, potable water, sewerage,³⁰ and schools, it is difficult for secondary and tertiary cities to attract investment in businesses that must bring in – and retain – qualified management and technical personnel. Second-rate banking and consumer services discourage entrepreneurs and high-quality managers and technical personnel from relocating from Lima. Similarly, commercial centers without facilities and services to prepare qualified middle managers and employees encounter problems in attracting business.

Inadequate information about decentralized business opportunities

Often business opportunities in secondary and tertiary cities are simply unknown or information about them is poorly developed. It also is difficult for potential investors and entrepreneurs to relate production opportunities to market opportunities.

Absence of local government financial and decision-making autonomy

Without financial and decision-making autonomy, local governments have little capacity to make commitments to support

³⁰ For more detail on access to water and public sewerage, see Chapter 2.

potential investors. The absence of local revenue-based bonding authority means that local governments have little to offer in their own right to create conditions conducive to attracting business.

Prevalence of centralized business decision-making

Peruvian businesses also suffer from the Lima hegemony syndrome. Astute business decision-making depends heavily on Lima-based political and economic interests and perceptions. Without changes in current pro-Lima attitudes, businesses in Peru will continue to be run from Lima.

High fixed costs of labor and high business tax burden

Peru's labor costs and business taxes compare unfavorably with those of many of its competitors. Although these factors do not necessarily affect the interior of the country more than Lima, they add to the litany of constraints already affecting the climate for business in Peru's secondary and tertiary cities and associated countrysides.

4.3.2 Agricultural Productive Sector

A majority of Peru's poor and extremely poor depend directly and indirectly on the agricultural system – production, processing, marketing, and demand – for their livelihood. Given agriculture's pervasive role in shaping food security, the constraints affecting it are the primary focus of the discussion that follows.

The agricultural sector is the primary supplier of food in Peru.³¹ It also generates considerable foreign exchange from exports,³² thereby contributing to the country's capacity to import foodstuffs. Thus, availability of food depends in a major way on the economic health and growth performance of the agricultural sector. Moreover, since the majority of the food insecure depend directly or indirectly on agricultural activities for income (including in-kind income in the form of on-farm food consumption) as well as employment, the

³¹ Rebosio, Guillermo, and Yenny Melgar, *Perú: hacia una estrategia de seguridad alimentaria para el nuevo milenio*. CIED, Lima, 1999, pp. 44-45.

³² For more detail, see Table 4.2.

performance of the agricultural sector is a major determinant of access to food by poor and extremely poor populations, especially the rural food insecure. It also affects a considerable proportion of the urban food insecure, since agricultural input and output processing and marketing generate a significant share of employment for poor urban populations.³¹

Additionally, and perhaps even more importantly, as agricultural factor productivity (that is, the productivity of land, capital, management, and especially labor) increases, the positive impacts on the food insecure are enormous and multiple: 1) reduced unit costs of production raises profitability, attracting increased outside investment and re-investment of profits that generate more and more productive jobs for the rural poor; 2) increased processing and marketing of agricultural products produced in-country generates more jobs for the urban poor than do imported agricultural products – that is, they have a greater economic multiplier effect; and 3) lower prices for foodstuffs translate into increased purchasing capacity with the same resources for the food-insecure consumer.

Evolution of Agricultural Sector Performance

The agriculture sector produces food for both internal consumption and export. Exports earn foreign exchange, financing food imports for additional internal consumption. Agriculture supplies provided directly nearly two-thirds of calories and over half of protein and fats consumed in Peru.³⁴ Until land reform in the 1970s, it generated a foreign exchange surplus – in other words, agricultural exports amply exceeded agricultural imports. During the 1990s, agricultural exports generated about two-thirds of the foreign exchange needed to pay for imported foodstuffs.³⁵ In sum, the agriculture sector provides directly and indirectly some 85 percent of foodstuffs consumed in Peru.

The performance of the agricultural sector suffered greatly during the seventies and eighties. The military government of the seventies had three objectives in instituting agrarian reform: 1) to rectify historical inequities in control of agricultural resources,

³¹ *Ibid.*

³⁵ *Ibid.*

³⁶ For more detail, see Table 4.2.

especially land; 2) to revert the highly skewed distribution of agricultural incomes, and 3) to provide increased economic opportunity for the rural poor. Unfortunately, these good intentions translated themselves into a set of land redistribution and agricultural marketing policies that virtually destroyed the agricultural economy, provided short-lived windfall benefits to a relatively small share of the less poor rural population, and left the poorest of the rural poor more destitute than ever.

The democratically elected government of 1980 to 1985 failed to confront the legacy of land reform from the seventies. The populist pro-consumer policies of the government that took office in 1985 mired the agricultural sector even more deeply in generalized poverty. The imposition of price controls on foodstuffs exacerbated the plight of agriculture and the rural poor, forcing them to subsidize urban consumers. The government offset the consequent declines in agricultural foodstuff production by increasing food imports rapidly, subsidizing them heavily with unsustainable differential exchange rate policies.

The economic disaster that began in earnest in rural Peru in the mid-seventies and worsened in the eighties led to the rise of rural-based insurgency and terrorism that also became an urban phenomenon. Major parts of rural Peru, especially in the Sierra and high jungle, fell under the control of insurgents; a virtual state of siege gripped Lima and a number of other urban centers.³⁶ Violence precipitated by insurgents, terrorists, coca traders, and government police and military forces led to widespread abandonment of productive land in troubled areas.

The parallel continuing failure to bring order into agricultural input and output production and marketing systems spelled the virtual collapse of agriculture by 1990, causing large areas of productive land to be abandoned, even in non-violent areas on the coast.

The steady path of the economic collapse of agriculture is apparent from a review of long-term time series of agricultural exports and imports. Until the beginning of the seventies, Peru had enjoyed over two decades of major agricultural trade surpluses. During that period, agricultural imports amounted to only 50 to 75 percent of agricultural exports. The comfortable surpluses declined

³⁶ Valera, Guillermo, *Las comunidades en el Perú: una visión nacional de las series departamentales*. Coordinadora Rural, Lima, 1998, pp. 14-15.

to around 40 percent in 1970 (less than two years after the military takeover) and marched inexorably to an agricultural trade deficit by 1980.³⁷ The agricultural trade balance has never recovered to its former surplus status. Somewhat ironically, as the macroeconomic adjustment policies of the nineties generated ever more favorable foreign exchange positions, it was possible to finance even higher levels of food imports to offset the lack of dynamism in agricultural productivity, resulting in the highest levels of *per capita* food availability in the history of Peru.³⁸

Beginning in mid-1990, the initiation of macroeconomic stabilization and dismantlement of state marketing of agricultural products, along with the elimination of serious insurgency violence in the countryside, came together to create conditions for bringing abandoned land back into production and attracting new investment into agricultural export production. By 1993, the negative economic effects of stabilization measures had run their course, confidence in the economy had been restored, and investment in export agriculture surged. These positive economic phenomena, combined with favorable climatic conditions in 1994, resulted in a surge in the real value of agricultural exports of 70 percent. The value of agricultural exports continued to increase into 1997-1998, despite the adverse climatic effects of *El Niño*.

As Table 4.2 indicates, the traditional export crops of cotton and sugar, both major coastal irrigated crops during the 1950s and 1960s, never recovered from the destructive policies of the 1970s and 1980s. The other major traditional export crop, coffee, is a rain-fed permanent crop grown primarily in the high jungle. Getting marketing policies right, together with pacification of the countryside, allowed large areas of abandoned and near-abandoned coffee to be rehabilitated and improved technologies introduced. Alternative development programs financed by donors played a major role in this regard, as they sought to wean small producers from illegal coca production. As seen in the table, coffee accounted for more than 40 percent of the increase in agricultural exports from 1990 to 1999; non-traditional exports, produced mainly on the coast, accounted for the rest. Coastal sugar and cotton continued to decline to currently insignificant amounts.

³⁷ *Ibid.*

³⁸ Rebosio, Guillermo, and Yenny Melgar, *op. cit.*, pp. 44-45.

Table 4.2

**Principal Agricultural Exports
(1990-1999)
(millions of US \$ FOB)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Traditional products										
Sugar	36	33	22	13	33	30	37	33	27	8
Cotton	48	57	23	5	5	24	30	32	4	2
Coffee	98	104	69	56	186	284	223	397	281	265
Non-traditional products										
Asparagus	31	45	62	82	88	109	130	138	128	149
Cacao	13	14	16	11	14	22	20	18	17	15
Cochinilla	13	9	11	9	13	29	39	33	16	13
Others	55	89	81	87	132	123	141	160	153	236
Total	294	352	278	263	471	620	620	811	625	687

Source: *Información*.

Elaboration: CIUP.

Most non-traditional agricultural export crops are relatively capital-intensive, management-intensive, and land-saving – asparagus, for example. Per unit of area planted, they also are significantly more labor-intensive than traditional crops. Per unit of output value, however, they are less labor-intensive. Thus, even though non-traditional exports generate considerable employment per hectare, rapid growth in the value of those exports does not require large extensions of land. Accordingly, the impressive growth in the value of non-traditional exports over the last decade could continue for some time into the future without having a significant impact on agricultural employment nationwide or on overall agricultural labor productivity. Although rapid growth in non-traditional agricultural exports could continue to make a highly desirable contribution to economic growth, Peru cannot look to this sector alone to solve the country's overall employment and poverty problem, even taking into account the employment generated in sector-related backward- and forward-linkage activities.

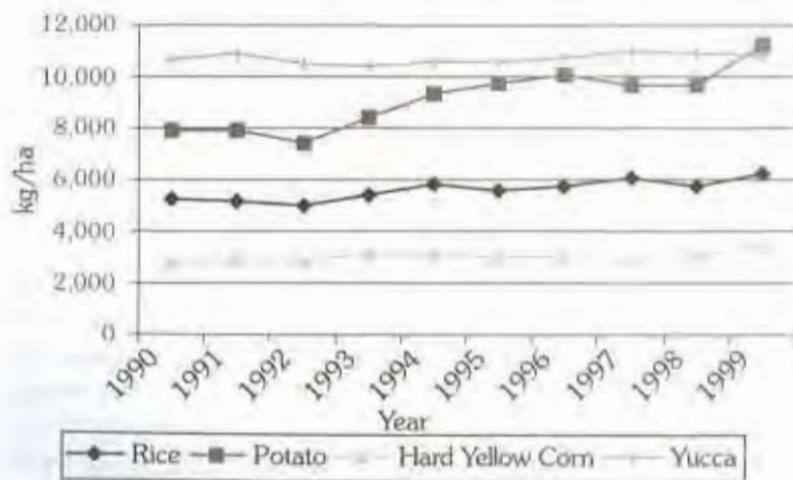
In contrast to progress on the agricultural export front, the

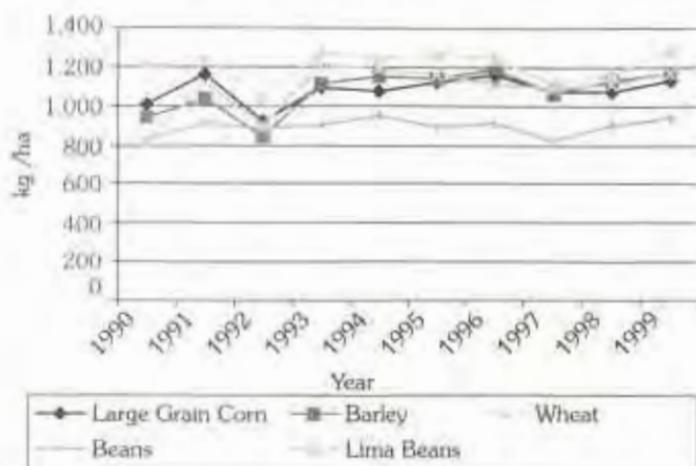
production of foodstuffs for domestic consumption has not fared well. Although favorable macroeconomic policies and pacification of the countryside have succeeded in bringing abandoned land back into production, foodstuff yields have been stagnant for some time.

To illustrate, Figure 4.1 presents the annual yields of nine major foodstuff crops for 1990-1999. After taking weather-induced variations into account, the yields of all but two crops remained flat throughout the period. Only potatoes and rice show yield improvement tendencies that climatic variations cannot explain. The yield increases in question appear to correlate with years in which the government furnished farmers significant subsidies in the form of fertilizer, improved seed, and, to a lesser extent, other inputs. As one might expect, the input subsidies resulted in distortions of relative costs of production, which led in turn to overproduction and steep declines in prices at harvest. Although data and analysis do not exist to make a firm case, it is likely that the profitability of these crops actually declined during the period of government subsidy. It also is likely that the long-term effect on productivity of the ill-advised subsidies will be negative.

Figure 4.1

**Yields of Principal Foodstuff Crops
(1990-1999)**





Source: Ministry of Agriculture.

Elaboration: CIUP.

Current Conditions and Prospects

The discussion below revisits the principal constraints to agricultural sector performance identified in the 1994 Food Security Strategy to assess the degree to which Peru has resolved them. They are: 1) low profitability of agriculture; 2) poor prospects for expanding cultivated areas; 3) sub-optimal use of agricultural technology; 4) inadequate policies governing water rights; 5) informality of agricultural labor; 6) lack of land titles and prevalence of land disputes; 7) scarcity of capital and credit for agriculture; 8) adverse effects of continued coca cultivation; 9) lack of market integration and geographic isolation; 10) inadequate marketing and market information systems; and 11) counterproductive agricultural import surcharges.

Low profitability of agriculture

Knowledgeable observers agree that profitability in agriculture is low or negative both for traditional exports and for foodstuffs. However, they fail to agree on the major causes of low profitability. Many point to structural problems, including: 1) "unfair" competition from imports; 2) prevalence of *minifundia* that do not permit economies of scale; 3) low educational attainment and weak managerial skills among producers; 4) geographic isolation of

farmers; 5) failure of farmers to organize themselves to gain market power; 6) lack of technology transfer; and 7) lack of effective demand for foodstuffs.³⁹

Although each of these problems is to some extent a legitimate expression of conditions that impact unfavorably on the profitability of Peruvian agriculture, they do not lend themselves to ready corrective action. In other words, they describe existing conditions and limitations. They do not define problems in terms that are readily amenable to resolution through policies and programs.

How does low profitability in agriculture relate to food insecurity and poverty?

Low profitability is a proxy for the low productivity of factors of production – land, labor, capital, and management. Low productivity of agricultural labor means low returns to laborers and high food insecurity for families dependent on work in agriculture as a livelihood, particularly subsistence farm families producing food for on-farm consumption and local sale. Low productivity of capital and management means that agriculture cannot compete with other sectors for scarce capital and management resources required to increase productivity across the board.

The core problem. Unraveling the problem of low profitability – that is, low productivity – is complex. Yet, if one approaches the problem from the perspective of the economics of impoverished rural populations, one gets to its core: in short, much of agricultural labor is redundant. Under conditions of overwhelming redundant labor, the survival response of risk-averse rural farm family members is two-fold: 1) to try to remain in agriculture, which means remaining underemployed or unremunerated; and 2) to look for agricultural wage labor positions, which, as a rule, are precarious and low-paying. Historically and currently, application of these risk-averse responses has resulted in precarious survival equilibria in most of rural Peru. The degree of survival differs among areas, from severely sub-marginal in much of the rural Sierra to mildly marginal in much of the coast. As rural populations continue to expand on an agricultural resource and factor productivity base that remains

³⁹ Rebosio, Guillermo, and Yenny Melgar, *op. cit.*, p. 46.

relatively fixed (or actually diminishes), the only safety valve to maintain the precarious equilibria is emigration, usually from rural to urban areas, but also from less well-off rural areas to better-off rural areas.

Emigration is the option taken most often by high risk-takers, who generally are the most capable managers and laborers. As equilibria in severely sub-marginal rural areas become increasingly strained, however, many who would prefer not to leave the countryside migrate as well. And as much as the recipient areas – cities, especially – buckle under the influx of the new arrivals, the immigrants cope and survive, not with ease, but generally with more facility than in the areas they left behind.

The inevitable solution. As much as it goes against the grain in some quarters, the only realistic solution to economic overpopulation in rural areas is to expand employment opportunities in cities for what, for the foreseeable future, will continue to be an unrelenting exodus of rural emigrants. To put it succinctly, the time has come to de-emphasize supply-push strategies in rural areas and shift to a demand-pull approach outside them. Only when cities can absorb the redundant rural labor force from rural areas will it be realistic to expect agricultural labor productivity to move upward. It is only then that the cycle of poverty in rural Peru will come to an end.

Despite impressive growth in agricultural GDP, the rural labor force is as redundant today as in 1994, if not more so. Unfortunately, the key constraint – low, stagnant agricultural profitability and productivity – will not go away until the underlying labor redundancy goes away as well.

Limits to the expansion of the cultivated land base

As the 1994 Food Security Strategy pointed out, increases in agricultural output in Peru have relied heavily historically on land expansion rather than on increased productivity. That reliance has continued throughout the nineties. Considerable land that producers had abandoned due to rural violence during the eighties, or for economic reasons in the aftermath of the land reform in the seventies, came back into production during the nineties.

As indicated in 1994, prospects for net increases in cultivated land area in the future are poor. Problems of salinity build-up and drainage on irrigated land on the coast continue without resolution, leaving an estimated 20 percent of coastal land – nearly 150,000 hectares – unproductive, thus offsetting gains realized from bringing new coastal lands under irrigation. Similarly, even though producers are using proven soil and water conservation and management practices in the Sierra and the high jungle, agricultural lands affected adversely by erosion continue to make up approximately two-thirds of land under cultivation in those areas (800,000 hectares), and half of the cultivated land in those areas (600,000 hectares) suffers from severe erosion.

During the nineties, government land expansion policy focused on bringing new coastal land under irrigation and on ensuring sufficient water for land already irrigated.⁴⁰ The program managed by the Special Commission for Promotion of Private Investment in Land Irrigation (CEPRI Tierras) seeks to encourage national and foreign private investors to invest in coastal drylands apt for irrigated agriculture, especially for producing export crops that can be grown throughout the year to access export market windows.⁴¹ The government is investing funds to bring a reliable supply of irrigation water to those lands. It is also expanding the capacity of several major coastal irrigation systems to bring approximately 140,000 hectares of new lands under irrigation, as well as to improve the reliability of water supplies to more than 400,000 hectares of existing irrigated land.

As the 1994 strategy pointed out, evidence strongly suggests that the irrigation projects undertaken during the nineties and projected to continue into the future can be expected to yield very low returns. Additionally, as discussed further below, without major overhaul of the system for pricing irrigation water, misuse of water and inadequate maintenance of physical facilities will continue to result in the degradation of system capacity and irrigated land productivity. A 1979 study by Chiriboga compared the costs of creating a person-year of employment from investments in irrigation on the coast and in the Sierra. In 1979, it cost an average of over

⁴⁰ "Chavimochic: nuevo emporio exportador," in *Agronoticias*, Caroline Trinidad Ardiles, Lima, Year 22, No.242, 2000, p. 53.

⁴¹ <http://www.copri.gob.pe/cetierras/Marcos%20para%20tierras.htm>

U.S. \$13,000 in coastal irrigation to generate one person-year of employment. The same investment in Sierra irrigation would have generated five person-years of employment.

Sub-optimal application of agricultural technology

Prior to the land reform of the seventies, a highly dualistic economy existed in the agricultural sector. The export-oriented large-farm *hacienda* system generally applied modern high-productivity capital-using technologies, while small farms dedicated largely to local foodstuff production applied traditional low-productivity, capital-saving, risk-averse technologies. The decapitalization brought on by land reform eliminated this dual economy, and low-productivity technology became the norm.

Major initiatives by the government and donors to re-establish a national public agricultural technology generation and transfer (ATG&T) system in the eighties fell by the wayside in the nineties. Today, the ATG&T system is quite weak and contributes little to optimizing the use of agricultural technology. Largely as a result of initiatives by individual producers and their associations, many non-traditional export crops benefit from modern capital-using technologies adapted from other countries. Still, traditional risk-averse capital-saving technology continues to be the norm for domestic foodstuff production. And, as discussed above, so long as agricultural labor redundancy continues to dominate the economies of most foodstuff production areas of Peru, there will be little incentive to adopt significant productivity-increasing technologies.

Decades-long institutional discontinuity and instability in agricultural technology generation and transfer not only continued but worsened in the 1990s. Today publicly supported agricultural research and extension are in major disarray. And the private sector has been unwilling or unable to make significant inroads into technology improvement for domestically consumed foodstuffs.

Water rights and pricing

A total of 35 percent of arable land in Peru is irrigated, and irrigation is a major use for water. As owner of all water rights in Peru, the government grants licenses for its use. For more than

half a century, it has invested substantial resources in irrigation development, mainly on the arid coast. Charges to farmers for water use rights cover only a fraction of irrigation system operation and maintenance costs, let alone the recovery of the government's investment in irrigation system development. As a result, water use efficiency is low, systems are neither operated efficiently nor maintained adequately, and overuse of water causes major losses of productive land to waterlogging and salinization. Currently, over 20 percent of cultivated land on the coast is abandoned or marginally productive.

There have been numerous attempts over the years to reform water rights and water pricing legislation to ensure that users pay the economic value of this scarce resource. To date, these efforts have failed. Under legislation first presented in 1993, the government proposed recovering the costs of future public sector investments in irrigation and guaranteeing the operation and maintenance of new and improved systems. Water was to become a private, tradable good, thereby allowing the market to price and allocate water use. The legislation in question is still pending.

Appropriate legal arrangements for water use rights and pricing are undoubtedly Peru's single most important agriculture-related policy challenge.⁴² Until Peru adopts economically sound agricultural water use and pricing policies, the distortions created by existing policies will continue to engender inefficient use of factors of production on the coast and distort comparative advantage in favor of crops with high demand for water per unit value of production, such as rice and yellow corn, instead of crops that economize on this scarce resource.

The combination of publicly subsidized investment in irrigation works and low water prices makes production of irrigated rice on the coast more attractive than the production of potatoes in the Sierra, say, or dryland rice in the jungle. In this connection, it is useful to compare the response to subsidization of irrigated agriculture on the coast with the response to soil and water conservation and management practices in the Sierra and high jungle. Analysis of experience in the Central Sierra during the eighties indicates that application of simple on-farm soil and water

⁴² "Se requiere un nuevo marco legal para lograr inversiones en el agro", in *Gestión*, 08/06/2000, p. 10.

conservation and management practices often doubles and triples yields of potatoes, corn, and other traditional crops, even without complementary technological improvements. Although PRONAMACHS continues to promote on-farm soil and water conservation and small watershed management practices, public resources allocated to these activities are infinitesimal compared to public sector investments in coastal irrigation projects.

Most agricultural employment is precarious

Agricultural production activities provide employment directly to one-third of Peru's economically active population. Still, nearly half of the rural labor force – that is, all rural people except children under 15 years old and the elderly – are economically inactive.⁴⁵ Most economically active small farm family members work on their farms without wages. In addition, of those who are economically active in agriculture, nearly half are underemployed (that is, they work an average of less than 30 hours per week). The employment situation is most bleak in the Sierra, followed by the jungle. As discussed above, disguised unemployment and redundant labor are at crisis levels, especially in the rural Sierra, but also in other rural areas of Peru. Until urban employment absorbs the redundant labor pool from the countryside, significant improvement in agricultural factor productivity will not occur. The one notable exception is the pockets of specialized non-traditional production vertically integrated with export-oriented agro-industry.

Land titles and markets

The 1995 Land Law eliminated major restrictions on land markets that had resulted from the ill-conceived and poorly implemented land reform of the seventies, while at the same time providing for protection of environmentally fragile areas. It also permitted public auction of unproductive state-owned lands. To date, active land markets have not developed. Obstacles include the absence of marketable land titles, proliferation of land ownership and boundary disputes, complex and outmoded legal procedures

⁴⁵ Caballero, Víctor, "Agro andino: necesidad de ampliar las relaciones salariales," in *Idéale*, Gráfica Bellido, Lima, No. 112, 1998, pp. 52-53.

for clearing land titles and resolving ownership disputes, and inefficient and relatively expensive title and transaction registration procedures. The absence of efficient instruments allowing land to serve as collateral also discourages the financing of land sales and land-based productivity-enhancing improvements.

Various attempts by the government to expand land titling and registration have been disappointing. Until there is a general overhaul and modernization both of the commercial code and of related legislation and regulations that restrict the use of land as a tradable economic good, it is not likely that the economic mobilization of land will become a reality.

Initiatives to date to mobilize land as an active economic asset and tradable factor of production have not included lands owned by nearly 6,000 *campesino* communities.⁴⁴ The communities in question are legal entities with historical roots in indigenous land reservations established during colonial times. During the land reform of the 1970s, they expanded in size and importance. Their ownership is collective and their management structure unrelated to asset risk. Together, *campesino* communities own 40 percent of Peru's agricultural land and produce one-third of its foodstuffs.⁴⁵ Approximately 50 percent hold registered titles, and another 25 percent unregistered titles.⁴⁶ Land and boundary disputes abound among and within *campesino* communities. Recent studies⁴⁷ outline the following limitations to the lands held by *campesino* communities:

- There is considerable confusion among *campesino* community members and leaders about the provisions of the 1995 Land Law and related legal norms.
- Within *campesino* communities, there is widespread recognition of individual family ownership and inheritance rights, including full rights to production and the renting or selling of land to other community members.
- A limited land market exists within the community ownership

⁴⁴ Del Castillo, Laureano, "Formalización de la propiedad rural," in *Idéale*, Gráfica Bellido, Lima, No. 112, 1998, pp. 14-15.

⁴⁵ *Ibid.*

⁴⁶ Valera, Guillermo, *op. cit.*

⁴⁷ Fieldwork conducted by Arariwa, CCPP, and CEPES NGOs in Cusco, Puno, Ayacucho, and Huancaavelica.

unit, and landownership also changes hands through gifting, marriage, and inheritance. The result is a proliferation of unregistered subdivisions of lands existing formally as single, collectively owned units.

Many, if not most, *campesino* communities are in various stages of deterioration and inoperability. In effect, formal land rights have passed informally to individual community members. The confusion between formal and informal ownership decision-making authority discourages improved production decisions, severely restricts land marketability, and results in sub-optimal land use. The tragic bottom line is a potentially rich resource grossly underused in economic terms.

Scarcity of formal financing for agriculture

As part of the economic policy package put in place at the beginning of the nineties, the Fujimori government wisely liquidated the Agrarian Bank, thereby bringing to a close public sector institutionalization of subsidized agricultural finance. Although the government made policy changes to encourage private sector provision of finance for agriculture, the measures were largely discrete and isolated, and did little to modernize Peru's agricultural finance system. The private financial system has not made significant inroads into agriculture. The exception, again, has been non-traditional export-oriented agro-industry, which offered the banking system not only profitable ventures to finance, but also urban-based assets as loan collateral.

Government and NGO initiatives to make credit more accessible to small farmers on social equity grounds have been largely ineffective. More than that, debt forgiveness and credit subsidization schemes floated by the Fujimori government in its waning months only served to make things worse. For financing of agriculture to become a viable proposition on a wide scale, the underlying constraints of low profitability and low productivity discussed above must be addressed first. Even then, the private financial system will not respond in the absence of a thorough overhaul of commercial instruments, procedures, and alternatives for securing agricultural credit, for collecting outstanding debt, for seizing security assets, and for mobilizing substantial increases in financial flows to the

agricultural sector. Until then, initiatives that look to finance as the key to unlocking the revitalization of the agricultural sector are doomed, at best to partial successes, at worst to failure.

Adverse effects of coca cultivation on agricultural production in the high jungle

Major programs to expand alternative economic activities in coca-growing areas have continued in force since 1993, and enjoy the strong endorsement of the Peruvian government and donors alike. Together with major reductions in violence, these programs have had a significant impact on recuperation of coffee production in high jungle areas. Still, the prolongation of low prices for bulk coffee internationally and the failure of the coffee industry to ensure entry of coffee exports into premium niche markets call into question the sustainability of the sector's recuperation.

Adverse effects of geographic isolation on market integration and competitiveness

Peru's difficult geography isolates many production areas from demand centers and market outlets. The remoteness of many production areas is an obstacle to development of backward and forward linkages with urban market centers. Under such conditions, segmented markets are perpetuated. High marketing costs to and from the Sierra and jungle areas make it difficult to attract investment in value-added activities to those regions of the country. Products from isolated areas tend to become residual price claimants, and are discounted for their inherently high marketing costs. Input prices increase for the same reason.

High input and output marketing costs translate into low profitability, low input use, and low levels of production. In the absence of the dynamic multiplier effects offered by larger integrated markets, stagnant equilibrium becomes the norm. Investment in carefully targeted transport and telecommunications infrastructure can reduce the economic constraints associated with geographic isolation, making many geographically isolated production areas competitive with others that are less isolated. Such investment also can facilitate other economic opportunities, such as tourism.

The Fujimori government invested heavily in road infrastructure between 1995 and 1998. During that period, it asphalted nearly 2,500 kilometers of roads, an increase of 32 percent. It also expanded access roads by 18 percent, to over 46,000 kilometers in total. Although these investments are substantial, they pale against the investment requirements of Peru's multiplicity of isolated areas.

To integrate those areas effectively with market outlets and demand centers, a resetting of economic infrastructure investment priorities is in order. In that process, the concept of economic corridors can be a useful paradigm for thinking through exactly how to integrate secondary cities with their dependent tertiary cities and primary production hinterlands – and how to link them in turn with national and international markets.

Adverse effects of inadequate marketing systems on competitiveness

As discussed in the 1994 Food Security Strategy, domestic food prices are formed largely in Lima. Two wholesale markets in Lima determine the prices for most perishables produced in Peru. Most foodstuffs come from independent small farmers or *campesino* community members, located largely in remote areas. Farmers typically sell to local trucker-traders in small lots at harvest. Harvest and postharvest losses are high, especially of perishables, running to 15 to 30 percent of production.⁴⁸ Losses are a function of poor harvest and postharvest handling, poor roads and inadequate transport equipment, lack of storage facilities, and lack of financing. On top of the losses, the absence of information on planting intentions, projected harvests, farm-gate and wholesale market prices, transport costs, etc., biases prices against producers. Markets suffer from oscillating oversupply and scarcity, and from a lack of generally accepted grades and standards. This panoply of market constraints, which has had a dampening effect on producer incentives for decades, changed little during the nineties.

⁴⁸ CAF – CONFIEP, *Propuesta para el desarrollo del sector agrario*, Documento de trabajo, 1999.

Adverse effects of price bands for imported agricultural products

Price banding, introduced by the government in 1991, was intended to protect Peruvian producers and consumers from year-to-year changes in international prices of imported foodstuffs.⁴⁹ Wheat, pasta, corn, rice, sugar, and powdered milk, among other products, have been subject to price bands. Unfortunately, the process of administering price bands is subject to manipulation, and, in practice, the policy lost its focus on its intended purpose. As the 1994 Food Security Strategy suggests, the oligopolistic character of the food import industry in Peru appears to allow importers to pass along the added costs of price banding to consumers, where the burden falls more heavily on poor people, who spend a higher share of their income on food than do higher-income consumers.

4.4. Social Sector Constraints Affecting Poverty and Food Insecurity

Eradicating poverty is a complex task that can be achieved only in the medium to long term, primarily through rapid economic growth and creation of productive employment opportunities. In the immediate term, many of the poor, especially the extremely poor, may need assistance to ensure they and their families avoid the serious consequences of poverty, including hunger. Hunger, an important by-product of poverty, can have serious short- and long-term consequences on health, productivity, income-earning capacity, and quality of life.

A good poverty reduction strategy, therefore, needs to have a poverty alleviation dimension, which implies the need for safety-net programs. But safety-net programs can also have a longer-term, poverty reduction dimension to them. That is, safety-net programs are needed to help people cope better and to alleviate the worst aspects of poverty in the short to medium run so that their own health and productivity, and that of their children, are not compromised in the future.

Social sector programs can play an important role in a poverty reduction strategy, some by helping to alleviate the worst

⁴⁹ Rebosio, Guillermo, and Yenny Melgar, *op. cit.*, p. 124.

consequences of poverty in the short to medium term and others by helping to reduce poverty. Primary health and basic education represent an investment in the human capital of the poor and help increase their productivity, both in the short and longer run. Among traditional social sector programs, therefore, primary health and basic education programs are the most important from a poverty reduction perspective. Food assistance and temporary employment programs play a role in the alleviation of poverty and food insecurity in the short to medium term. They can also play a poverty reduction role if they help to increase the earning capacity of beneficiaries, create social and productive infrastructure, or help people maintain their health and productivity and prevent malnutrition among young children.

Multiplicity of Social Service Providers and Programs and Lack of Coordination

Two distinguishing features of social service provision in Peru, in contrast to other countries, are, first, the large number of actors carrying out social sector programs and, second, the large number of programs the typical actor is responsible for. As one might expect, these features lead to high costs and inefficiencies. Actors in the sector are wide-ranging, including numerous central government agencies, regional and municipal governments, community groups, donor agencies, firms, and nongovernmental organizations. Furthermore, most programs operate independently. Coordination among actors is poor, and considerable gaps and duplications exist among programs.

The Inter-Ministerial Council on Social Affairs (CIAS) is responsible for ensuring the smooth flow of information among ministries and guiding the development of social policy. During the transition government, CIAS assumed a more active role in setting technical standards and offering technical assistance to line ministries, but still operated without a clear mandate and resources. The area of food assistance is particularly complicated, with a multiplicity of institutions undertaking a variety of programs, often with financial support from several donors (see Table 4.3). Public sector institutions with food assistance programs include the Ministries of Finance (Vaso de Leche), Women and Human Development (PRONAA),

Health (Basic Health Project, PANFAR, PACFO), Education (school feeding), and the presidency (school feeding). A number of NGOs, including ADRA, CARE, CARITAS, and PRISMA, also design and implement food programs, using imported, donated food. Since food is distributed through so many different institutions and programs, coordination is difficult.

This complexity also makes it difficult to understand the overall dimensions of food assistance in Peru and assess its impact on poverty and food insecurity. For example, most food assistance programs focus on one of three client groups, 1) pregnant and lactating women and children under five, 2) school-aged children, and 3) poor households generally (see text box). This categorization still understates the complexity of these programs. Some, such as PANFAR and Vaso de Leche, operate nationwide; others, such as PACFO and the NGO programs, are concentrated in poorer areas. Each program has different rules governing participation. And programs differ substantially in numbers of beneficiaries and in costs per beneficiary.

Taken together, food assistance programs reached almost 10 million people in 1998, which suggests that at least one out of

An Example of the Multiplicity of Social Programs and Providers

In the first place, if one pictures the range of "products" the state provides to low-income segments of the population, it is easy to prove that public resources essentially cover a high proportion of the basic basket of subsistence. For example, if took a photo of a family in front of its house surrounded by the school, health center, and the community center, one could visualize a story behind the image: in the morning, the father of the family goes to reconstruct terraces (PRONAMACHS) or to build a road (Caminos Rurales); the wife, before going to the health post (Minsa: basic health), leaves her youngest child in the Wawa-Wasi (Ministry of Education), and then goes on to pick up her food ration in the soup kitchen (PRONAA); the young boy heads for his technical course (PROJOVEN); the older children head off to school (INTEC) for a school breakfast (PRONAA, FONCODES, and Vaso de Leche); and in the afternoon, after the parents participate in a literacy program (PROMUDEH), everyone gets together at home (Banco de Materiales) to meet with friends later at the community center (FONCODES). The story could be happy, but it is not. Generally, it has been shown that households in the lowest income deciles have very limited access to basic social services such as education and health. Specifically, not all households in extreme poverty receive the help they need and deserve; and if they do receive it, they do not always have a positive image of it.

Source: Vásquez, Enrique, y Gustavo Rlesco, "Los programas alimentarios que 'alimientan' a medio Perú," in: Portocarrero, Felipe (ed.), *Políticas sociales en el Perú: nuevos aportes*. Red para el Desarrollo de las Ciencias Sociales en el Perú, Lima, 2000.

every three Peruvians benefited (assuming that some people were beneficiaries of more than one program). The two biggest programs were the Vaso de Leche program, with over 5 million beneficiaries, and the Desayunos Escolares, with almost 2 million beneficiaries. The amounts spent per beneficiary were very similar, U.S. \$21 per beneficiary for the Vaso de Leche program and U.S. \$26 for the Desayunos Escolares program. Nevertheless, the nutritional content of the rations provided was quite different. The Vaso de Leche program provided only 12 to 15 percent of the minimum calorie needs of beneficiaries, while the Desayunos Escolares program provided 30 percent of calorie needs. On the other hand, the nutritional value of the PACFO and PANFAR programs are fairly similar: the PACFO ration provides 30 percent of a beneficiary's minimum calorie requirements and the PANFAR program, 27 percent. Both programs focus on pregnant and lactating women and children under five and are run by the Ministry of Health (MINSA); both provide complementary health and nutrition services to beneficiaries in addition to food. Nonetheless, the PANFAR program, with over 400,000 beneficiaries, operates nationwide and spends U.S. \$8 per beneficiary, while PACFO, with 240,000 beneficiaries, is concentrated in the poorest areas of the country and spends over U.S. \$100 per beneficiary.

Table 4.3

A Summary of Peru's Food Programs and Program Financing and Beneficiaries (1998)

Programs / projects	Implementing institution	Cost of the program (thousand of U.S. \$)	Number of beneficiaries (thousand of U.S. \$)	Amount spent per capita (U.S. \$)
Public sector institutions				
Wawa-Wasi	Pronudeh, Pronaa, Minsa	1,338	28	48
Alimentación infantil	Pronaa	9,514	394	24
Alimentación escolar	Pronaa, MED	23,026	745	31
Niños y adolescentes en riesgo	Pronaa	294	17	17
Comedores populares	Pronaa	20,305	843	24
Desayunos escolares	Forcodes	51,634	1,962	26
PANFAR	Minsa (INS-CENA), Prnsaa	3,215	401	8
PACFO	Minsa (INS-CENA)	24,327	241	101
Promari	Minsa (INS-CENA)	293	4	73
PANTBC	Minsa (INS-CENA)	4,020	95	42
Vaso de leche	Municipal districts with financing from MEF	107,189	5,212	21
Total of public sector institutions		245,155	9,942	25

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Programs / projects	Implementing institution	Cost of the program (thousand of U.S. \$)	Number of beneficiaries (thousand of U.S. \$)	Amount spent per capita (U.S. \$)
NGOs				
Prodesa	Caritas of Peru	2.290	55	42
Niños	CARE	1.876	7	268
Nutrición Infantil	ADRA	2.407	95	25
Prosierra	PRISMA	26	26	1
Kusiayllu	Minsa (INS-CENA) PRISMA	1.290	8	161
Total NGOs		7.889	191	41

Source Vásquez, Enrique y Gustavo Riesco. "Los programas alimentarios que alimentan a medio Perú," in: Portocarrero, Felipe (ed.), *Políticas sociales en el Perú: nuevos aportes*, Lima, Red para el Desarrollo de las Ciencias Sociales en el Perú, 2000.

Food assistance program target groups in Peru

- **Pregnant and Lactating Women and Children Under Five**
 - PANFAR is one of the most successful food assistance programs in reaching its target group – women and children, from birth to 59 months old, at high risk of malnutrition. The program is implemented by the Ministry of Health with support from an NGO (PRISMA). Its objective is to improve the nutritional status of target children and their mothers through the delivery of primary health care services, including health and nutrition education, and supplementary food. PANFAR operates nationwide, in rural areas as well as in marginal urban areas.
 - The Vaso de Leche program, implemented by municipal districts with financing from the Ministry of Finance (MEF), has a similar target group – pregnant and lactating women and pre-school children – and also is nationwide. However, unlike PANFAR, it does not provide complementary services, nor is it as well targeted.
 - Other programs that target this group: NIÑOS (CARE), Nutrición Infantil (ADRA), WINAY (CARITAS), KUSIAYLLU (PRISMA), and PACFO (Ministry of Health).
- **School-Aged Children**
 - The Ministry of Education runs a ministry-funded school feeding program as well as a FONCODES-financed program in the poorer areas of Peru. The target group of these programs is primary school children. Their objectives are two-fold: first, to improve school attendance and academic performance and reduce the drop-out rate; and, second, to improve nutrition. The FONCODES program differs from the larger program in that it uses specially formulated, high-nutrient foods, involves parents and communities in the program, and attempts to evaluate impact.

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- **Poor Households in General**
- Several programs provide direct assistance to poor urban households through *comedores populares*, community kitchens that self-selected groups of women in poor urban neighborhoods have established to provide low-cost lunches to members or the general public. These programs reached over 1 million beneficiaries in the early 1990s, providing a relatively quick and easy way to ensure the urban poor had access to food during the worst days of the economic crisis. Over 800,000 people continued to benefit from these programs in 1998 (see Table 4.3), despite substantial improvements in the Peruvian economy.

Among traditional social sector agencies within the central government, the Ministry of Health is responsible for providing health services to those who do not receive them from other sources, namely the poor and food insecure. Within the Ministry of Health, the National Food and Nutrition Institute (INAN) coordinates implementation of several direct food assistance projects. The Ministry of Health also is responsible for assessments of Peru's nutrition problems. Responsibility for education falls to the Ministry of Education; as noted above, the Ministry of Education runs its own food programs as well. There also exists an extensive network of formal and non-formal pre-schools with strong community involvement (PRONOEI).

Table 4.4

**A Comparison of the Nutritional Content of the Rations
Provided by Selected Public and Private Sector Institutions
Through Food Assistance Programs
(As a Percentage of Minimum Calories and Protein
Requirements)**

Programs / projects	Calories	Protein
Public institutions		
Wawa-Wasi	70	107
Alimentación Infantil	75	100
Alimentación Escolar	24-30	3-44
Niños y Adolescentes en Riesgo	50	67
Comedores Populares	39	85
Desayunos Escolares	30	13
PANFAR	27	42
PACFO	30	30
Promarn	30	30
PANTBC	39	37
Vaso de Leche	12-15	8-10

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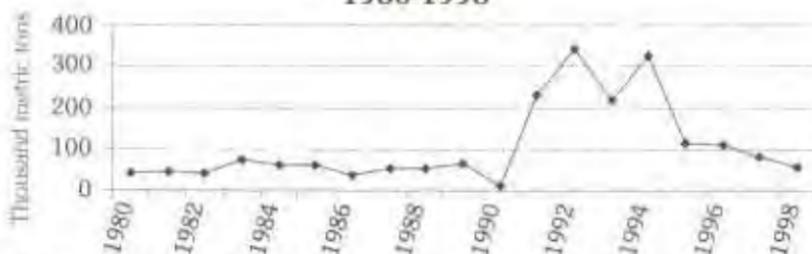
Programs / projects	Calorias	Protein
NGOs		
Prodesa (Caritas)	31.67	49.118
Niños (Care)	43	75
Nutrición Infantil (AIDRA)	39.44	51.84
Prosierra (Prisma)	60	33
Kustayllu (Prisma)	60	60

Source: Vásquez, Enrique y Gustavo Riesco. *Op. cit.*

Excessive Reliance on Food Assistance

Peru received large amounts of food assistance in the early nineties to help the government provide a safety net for the millions of people adversely affected by the economic crisis. Much of the assistance went to the poor living in Lima and in other urban areas along the coast. In 1991, food assistance programs provided over 226,000 metric tons of food to at least 9 million beneficiaries. The total value of food donations came to at least U.S. \$150 million. In the same year, central government budget allocations to the Ministries of Health and Education totaled U.S. \$186 million and U.S. \$246 million, respectively. Cereal donations were even higher in 1992 and 1994, increasing to over 300,000 metric tons, but since have declined to levels nearer to those of the eighties. Nevertheless, the Government of Peru, relying more on its own funds and local purchases now, still reaches around 9 million beneficiaries with food programs.

Figure 4.2
Donations of Cereals
1980-1998



Source: Ministry of Agriculture⁵⁰

Elaboration: The authors

⁵⁰ <http://www.mirag.gob.pe>

Large quantities of food assistance have been both an advantage and a disadvantage. Food assistance has made a positive contribution to the country, particularly in the early nineties. At the national level, it helped increase the overall supply of food available at a time when foreign exchange was scarce, which helped moderate price increases and made food more affordable for poor households. Food assistance programs also had a direct impact on households and individuals through a variety of direct distribution programs, including maternal and child health, and school and community feeding programs.⁵¹

The drawback to the availability of large quantities of food assistance lies in the encouragement it gave to excessive reliance on food assistance programs as a cornerstone of the country's safety-net program and promotion of nutritional objectives. The availability of food assistance also has contributed to a climate of *asistencialismo* in Peru, both at the national as well as the household level.⁵²

Insufficient Attention to Complementary Health and Education Programs

The Government of Peru began to rely heavily on food distribution programs in the early nineties. The programs represented an immediate, direct response to transitory food insecurity created by economic crisis in those years. In essence, food programs provide an income transfer to beneficiary households, but since the transfer takes place in the form of food, many also look to the programs to contribute to improving nutritional levels in the country.⁵³ But food is not the only input needed to improve nutrition. That is even more the case if one's goal is to improve the nutritional levels of the most vulnerable group in Peruvian society – children under three years of age.⁵⁴

⁵¹ Cortez, Rafael, "Contribución del gasto social, factores comunitarios y del hogar en la nutrición infantil," in Cortez, Rafael (ed.), *Salud, equidad y pobreza en el Perú: teoría y nuevas evidencias*. Centro de Investigación de la Universidad del Pacífico, Lima, in press.

⁵² Vásquez, Enrique, and Gustavo Rlesco, *op. cit.*

⁵³ *Ibid.*

⁵⁴ Suárez, Miguel, *Determinantes de la desnutrición aguda y crónica en niños menores de 3 años: un sub análisis de la ENDES 1992 y 1996*. Instituto Nacional de Estadística e Informática – PRISMA, Dirección de Investigación, Lima, 1999, p. 88.

Food must be utilized properly to have a nutritional impact; if it is not, available and accessible food is wasted. In Peru, poor dietary and sanitary practices and poor health are the primary constraints to proper food utilization. As indicated in Chapter 2, lack of access to health and sanitation services are important determinants of chronic malnutrition among children less than three years of age.⁵⁵ Moreover, improvements in health status can have an immediate impact on the ability of children and adults to utilize better whatever food is available.⁵⁶

In Peru, there is a tendency to confuse the feeding of people with improvement of their food security, and to define program objectives in nutritional terms, when the real objective is to transfer income to households or increase households use of education or health services.⁵⁷ If the objective is to improve the level of nutrition in a country, the primary focus should be on children under three, the group most likely to become malnourished.⁵⁸ Moreover, investments made in preventing members of this group from becoming malnourished will have positive impacts on productivity over entire lives. Food, though, is only a small part of what is needed to have an impact on the nutritional status of this group.⁵⁹ It also is imperative to ensure that health services are available and to promote better health and nutritional practices. Immunizations are important, as are health messages dealing with the treatment of diarrhea and upper respiratory infections. So too are nutritional messages about breast feeding and complementary feeding practices for children between six months and two years of age. Since low birth weight is an important determinant of chronic malnutrition among children under three, messages about prenatal malnutrition and maternal care assume importance as well. Finally, improvements in sanitation at the household and community level also help both these children and other members of their families to improve their food utilization.

In other words, if the objective is to reduce chronic malnutrition among nutritionally vulnerable young children, devoting attention

⁵⁵ Cortez, Rafael, *op. cit.*

⁵⁶ Riordan, James T., *op. cit.*; Amat y León, Carlos, *op. cit.*

⁵⁷ *Ibid.*

⁵⁸ Suárez, Miguel, *op. cit.*

⁵⁹ Cortez, Rafael, *op. cit.*

to complementary health and education programs is not an option – it is essential. To the extent it is feasible, there is also much to gain from integrating complementary health and education programs, both conceptually and operationally, with temporary employment and other programs designed to improve poor families' incomes.

Lack of a Comprehensive Strategy to Address Peru's Poverty, Food Security, and Nutritional Problems in an Integrated Manner

Another, perhaps more fundamental constraint is the absence of an overall strategy for addressing poverty and food insecurity problems, as well as the absence of clear mechanisms for prioritizing issues and channeling government and donor resources to resolve them. Since the mid-1990s, the Government of Peru has launched a major poverty reduction program, *Lucha Contra la Pobreza*, which also has had important implications for improving food security. In 1999, the government also published a National Plan for Food and Nutrition for the years 1998-2000.⁶⁰

Objectives of the National Plan for Food and Nutrition

- Promote the adequate feeding of children under three years of age, with special emphasis on children in the first year of their life
- Increase the consumption of micronutrients and reduce vitamin and mineral deficiencies and their related illnesses
- Improve feeding practices and the hygienic preparation of food through education and training programs
- Improve food consumption in extremely poor households
- Establish a system to enable food assistance programs and other programs and projects with food and nutritional objectives to be monitored and evaluated
- Strengthen the human resource capacity of different public and private institutions that implement public nutrition programs through training programs

Source: Presidencia de la República, *Plan nacional de nutrición y alimentación 'Nutrición al alcance de todos' 1998 - 2000*, Lima, 1999.

⁶⁰ Presidencia de la República, *Plan Nacional de Nutrición y Alimentación 'Nutrición al alcance de todos' 1998 - 2000*, Lima, 1999.

These are positive developments, *Lucha Contra la Pobreza* in particular, in light of the significant resources the government assigned to its implementation. Nevertheless, opportunities to exploit programmatically the close conceptual relationship between the poverty reduction program and the national food and nutrition plan have gone largely unexploited. For example, the only way to make sustainable improvements in the consumption of extremely poor households (an objective of the National Plan for Food and Nutrition) is to increase the income of these households and move them out of poverty (an objective of *Lucha Contra Pobreza*). In a similar vein, many food assistance programs commonly seen as contributing to the goal of improved nutrition probably play a more important role as part of the government's economic safety-net program⁶¹. That is, they probably are more effective as mechanisms for alleviating poverty than for improving nutrition.

The food security concept – food access and utilization, in particular – provides a way to integrate the two strategies conceptually and operationally. The poverty reduction strategy can be seen as focusing on the *access dimension* of food security in its stress on increasing the incomes of extremely poor and poor households, *improving their access* to food. Complementarily, the National Food and Nutrition Plan may be seen as focusing on the *utilization dimension* of food security.

The differences between the short run, when poverty alleviation is the primary outcome, and the medium to longer term, when poverty reduction is the primary objective, also need to be sorted out. Similarly, the differences between feeding people, which is a short-term response, and sustainable food security for families, which is a medium- to long-term objective, need to be better understood and articulated.

For example, a number of programs in the social sector, including food programs, can be seen as contributing to both poverty alleviation and poverty reduction objectives. School feeding programs contribute to the reduction of poverty through the development of human capital. But they also provide an immediate income transfer to students and their families and, thus, have a poverty alleviation dimension to them as well. Still, food is not the only method available

⁶¹ Vásquez, Enrique, and Gustavo Riesco, *op. cit.*

for transferring income to students' families and encouraging them to attend school – cash transfers also can be used. Food may make more sense than cash if children are showing up at school without eating since, in that case, a school-provided breakfast can help increase their attention in class and thereby promote increased learning. On the other hand, if food acts primarily as an economic incentive to send children to school, a cash transfer will probably be more cost-effective.

Programs that use food transfers to encourage pregnant and lactating women and women with young children to use primary health care also have both a poverty alleviation dimension (the income transfer) and a poverty reduction dimension (the development of human capital). Again, food is not the only method available for transferring income to the women's families and encouraging them to use the health services – cash transfers also can be used. As a further example, programs that provide temporary employment for the un- and under-employed to build schools and health posts have both poverty alleviation (the cash transfer) and poverty reduction (the creation of social infrastructure) dimensions. In short, what these examples illustrate is the need for more clarity in program objectives and more and better program evaluations to help identify the most cost-effective approaches to achieving stated objectives.

Food assistance programs, in particular, could benefit from the development of an overall policy framework or strategic plan that would set forth the objectives of such assistance, define institutional arrangements, assign priorities to target groups, and identify appropriate program actions. Many who are active in food security in Peru still fail to view it in all its dimensions – availability, access, and utilization – or to appreciate the complexity of the interactions among them.⁶² Many also still make the mistake of equating the promotion of food security with feeding programs, and do not appreciate that many other program actions are needed to bring about sustainable food security for food insecure households in the medium to longer term.

In the absence of such a policy or strategy, practice is largely determined by the proclivities of different agencies and the judgments

⁶² Riordan, James T., *op. cit.*; Amat y León, Carlos, *op. cit.*

of individuals in charge. Programs also continue to suffer from the absence of standard operating procedures. Many programs with the same objectives and target groups continue to differ greatly with respect to levels and duration of the assistance they provide.⁶³ As noted above, unit costs, measured in terms of total food cost and total cost per beneficiary, continue to vary substantially. The absence of standards for monitoring and evaluation also makes it difficult to set priorities among programs and to improve their management.

The *comedores* program illustrates some of the strategic and programmatic issues that call for resolution. As indicated above, *comedores populares* or community kitchens furnished a relatively quick and easy way to ensure that urban poor people had access to sufficient food during the worst of the economic crisis at the end of the eighties and beginning of the nineties. By providing access to subsidized meals, the program enabled poor people to maintain access to minimally nutritionally adequate diets and, thus, represented an effective response to the problem of transitory food insecurity at the time.

Today, however, the major problem is one of chronic poverty. Consequently, the criteria for assessing the current *comedores* program are the degree to which it makes an effective contribution to 1) reducing poverty, 2) alleviating poverty, and 3) improving nutrition. With respect to the first objective, providing food transfers to the poor or extremely poor through community kitchens does not appear to be an effective mechanism for helping beneficiaries climb out of poverty on a sustainable basis. For most people, escaping poverty means finding more productive employment. And the experience to date in transforming the *comedores populares* into profitable enterprises or in using them to launch their members into profitable pursuits elsewhere has not been a good one.

As a safety-net program (that is, as an income transfer), there may be other more cost-efficient alternatives. For example, it is likely that one could design a cash transfer program that not only would match or better the current program on performance measures such as coverage, targeting and leakage (see the discussion below) but would cost less to administer as well. It also is hard to

⁶³ Vásquez, Enrique, and Gustavo Riesco, *op. cit.*

justify the *comedores* on nutritional grounds. *Comedores* traditionally have not focused on the target group that is most vulnerable nutritionally – that is, children under three years of age. Nor does it provide inputs like health services and health and nutritional education that are equally – in fact, more – important as food in reducing malnutrition among this most vulnerable group. Nor have attempts to modify the *comedores* model to focus more on young children been very successful.

Public Sector Funding for Social Sector Programs Has Increased but Is Still Low by Historical Standards

In 1999, the public sector spent over 13 billion soles on social sector programs, a four-fold increase from 1993. Of this, 60 percent went to traditional social sector programs – education (43 percent) and health (17 percent). Another 26 percent went to government anti-poverty programs, including FONCODES, PRONAA, and Vaso de Leche. Expenditures on health and education tripled, increasing from 2.2 billion soles in 1993 to 7.9 billion soles in 1999. Expenditures on anti-poverty programs increased five-fold, from 0.6 billion soles in 1993 to 3.5 billion soles in 1999.

Figure 4.3

Distribution of Social Sector Expenditures in 1999

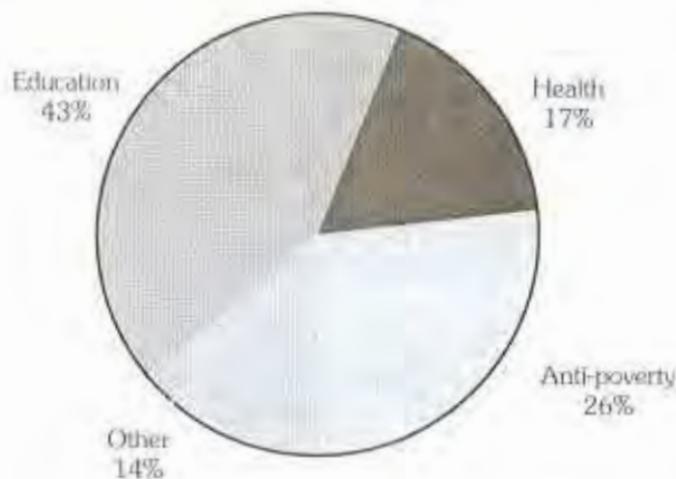


Table 4.5

**Trends in Total Government Expenditures
on Social Sector Programs**

	1993	1995	1996	1997	1998	1999
	in millions of constant soles					
Education and health	2,197	5,650	6,025	6,352	7,575	7,861
Education	1,582	4,048	4,036	4,430	5,424	5,609
Health	615	1,602	1,989	1,922	2,151	2,252
Poverty programs	633	2,264	2,574	2,656	3,188	3,491
FONCODES	377	501	458	648	635	731
PRONAA	58	213	198	190	196	300
Vaso de leche	116	230	235	240	285	305
Others	82	1,320	1,683	1,578	2,072	2,155
Other social expenditures	80	130	331	841	1,081	1,872
Total social expenditures	2,910	8,044	8,930	9,849	11,844	13,224

Source: Vásquez, Enrique and Gustavo Riesco. *Op. cit.*

Table 4.6

**Trends in Public Sector Spending on Health and Education
Between 1970 and 1998**

Year	As a percentage of total public sector expenditures			As a percentage of <i>GPD</i>		
	Education	Health	Total	Education	Health	Total
1970	18.8	5.5	24.3	3.2	0.9	4.1
1975	17.5	4.7	22.2	3.4	0.9	4.3
1980	13.2	4.8	18.0	3.0	1.1	4.1
1985	11.8	4.4	16.2	2.6	1.0	3.6
1990	12.0	3.7	15.7	1.7	0.5	2.2
1992	13.8	3.1	16.9	2.2	0.6	2.8
1994	16.1	6.3	22.4	2.6	0.7	3.3
1996	21.7	10.2	31.9	2.9	0.6	3.5

Source: 1970 to 1980, Banco Mundial. *Op. cit.*

1980 to 1996, Vásquez, Enrique and Gustavo Riesco. *Op. cit.*

Taking a longer-term view on trends in social sector expenditures, in this case on health and education, one can see that public spending on health and education as a percentage of total public sector expenditures has recovered from the lows reached in the early nineties. Still, expenditures on health and education as

a percentage of GDP, both individually and taken together, are still below the levels of the seventies and early eighties.

Poor Targeting of Social Sector Investments and Services

Peru's social sector public policy choices have contributed to serious inequities in levels of development between urban and rural areas and among regions of the country. The disparity is especially noticeable in the distribution of schools, health facilities, and potable water and sewerage systems. As a specific case in point, it was primarily the urban population – and not necessarily the poorest segments, even in the urban areas – that benefited from the extension of basic infrastructure and health services that took place during the 1994-1997 period.⁶⁴

Table 4.7

Distribution of Social Sector Expenditures by Income Class (1996)

Quintile	Share of total expenditures
1 (Poorest)	16.6
2	18.6
3	21.2
4	22.4
5 (Richest)	21.1

Source: Banco Mundial. *Op. cit.*

In the aggregate, government social expenditures are tilted mildly toward the better off in society. Less than 17 percent of total expenditures in 1996 went to the poorest 20 percent of the population, while more than 20 percent went to each of the top three quintiles in the income distribution.⁶⁵ Overall, the distribution of social sector expenditures seems to be driven largely by population distribution rather than by poverty reduction or alleviation considerations.

Proportionally, government expenditures on primary education and primary health care go more to lower income households than

⁶⁴ World Bank, *op. cit.*

⁶⁵ Vásquez, Enrique, and Gustavo Riesco, *op. cit.*

do expenditures on secondary and university education and hospital care.⁶⁶ In 1997, less than 20 percent of public expenditures on primary education went to support the richest 20 percent of society. In contrast, over a third of public expenditures on secondary education benefited the richest 20 percent, and over half spent on university education went to that group. Even though primary education expenditures were considerably more progressive than secondary and higher education expenditures, the poorest 20 percent still captured only 14 percent of expenditures. Similarly, hospital care was considerably more regressive than primary health care, with 30 percent of resources going to the richest 20 percent of the population.

Table 4.8

Distribution of Public Expenditures on Education by Levels of Education and Income Class (1997)

Levels of Education	Percent
Primary Education	
Poorest 20%	14.2
Richest 20%	19.4
Educación secundaria	
Poorest 20%	7.0
Richest 20%	36.9
Educación universitaria	
Poorest 20%	2.5
Richest 20%	53.1

Source: ENNIV 1997

By their very nature, education and health programs are (or should be) universal programs. By definition, however, anti-poverty programs, must reach the poor. First, their coverage must be high – that is, they should reach a high percentage of poor people. And, second, their targeting must be good – in other words, a high percentage of total expenditures should go to the poor and not to better-off groups in society.

According to World Bank estimates,⁶⁷ PRONAA (which finances the *comedores populares*) and FONCODES (the social

⁶⁶ *Ibid.*

⁶⁷ World Bank, *op. cit.*

investment fund) - two of the biggest anti-poverty programs - had the best records in reaching the poor (in this case defined as the bottom 40 percent of the income distribution) and in targeting expenditures to the poor. In both cases, their targeting was better than their coverage. Both PRONAA and FONCODES managed to direct 50 percent of their expenditures to the bottom 40 percent of the income distribution. Still, only about 12 percent of the bottom 40 percent of the income distribution benefited from the PRONAA program and less than 16 percent from FONCODES. Other programs evaluated included FONAVI (electricity and water), Banco de Materiales (housing), ENACE (housing), and INFES (education). Those programs had poorer rates of coverage (reaching 4 percent or less of the bottom 40 percent of the income distribution) and poorer targeting (with only 20 to 40 percent of expenditures going to the bottom 40 percent).

The World Bank also assessed the country's food distribution programs, looking at their coverage, targeting, and distribution of benefits. The biggest programs are Vaso de Leche (financed by the Ministry of Finance and operated through the municipalities), the school breakfast program (administered by FONCODES), and the community kitchens (financed largely by PRONAA).

Table 4.9

Distribution of the Benefits of Peru's Food Assistance Programs (1997)

Population group	Coverage	Monetary benefit
Malnourished and poor	66.3	38.0
Malnourished and non-poor	43.3	22.3
Malnourished and poor	47.0	15.9
Non Malnourished and non-poor	23.7	23.8
		100

Source: World Bank. *Op. cit.*

The World Bank concluded that Peru's food programs had high coverage rates and were relatively well targeted. Over 66 percent of households that were poor and had a malnourished child under five years of age received some benefit from food programs, and 38 percent of the monetary benefits went to households in that group. On the other hand, households that neither were poor nor

had malnourished children benefited as well. The coverage rate for that group was 23.7. In other words, almost a quarter of households that neither were poor nor had malnourished children received food program benefits in 1997. Similarly, almost a quarter of the programs' monetary benefits went to those households.

The World Bank also looked at how the distribution of food program expenditures among regions compared with the distribution of chronically malnourished children among regions. In 1997, the rural Sierra received considerably less in transfers than its proportion of chronically malnourished children – 50 percent – would warrant. In contrast, Lima received a much larger share of program resources than it would have if expenditures had been distributed in accordance with the geographical prevalence of malnutrition.

Table 4.10

Distribution of Malnourished Children and Distribution of Food Transfers (1997)

Geographical Location	Distribution of the Malnourished	Distribution of Program Expenditures
Lima	8.9	31.6
Urban Coast	6.9	8.8
Rural Coast	5.1	9.6
Urban Sierra	7.7	5.3
Rural Sierra	51.3	31.9
Urban Jungle	5.1	4.4
Rural Jungle	15.0	8.4
	100.0	100.0

Source: World Bank. *Op. cit.*

Assessing the degree to which food programs are effective in reaching households with a malnourished child under five is not a particularly appropriate test. For reasons noted earlier, the majority of Peru's food assistance programs are not designed, nor are they likely, to have an impact on the nutritional levels of children under five. What makes more sense conceptually is to look at how effective food programs are in reaching the extremely poor, who, by definition, need food assistance. Another analysis of Peru's food distribution programs focused on this issue, using the same household survey data base as the World Bank assessment.

The analysis in question concluded that Peru's food assistance programs have fairly good coverage: three out of every four extremely poor Peruvians receive some benefits from them. In absolute numbers, however, this finding means that in 1997 almost 1 million of Peru's extremely poor did not receive any benefits at all from any of the country's food programs. In contrast, large numbers of people who are not extremely poor did receive benefits – an estimated 9 million people in total. Accordingly, three out of every four people who benefited from food assistance programs in 1997 were not extremely poor. In other words, there is a lot of leakage in Peru's food programs, which implies that they are not very well targeted.

Table 4.11

**An Analysis of the Beneficiaries of Peru's
Food Programs
(1997)**

Geographical Location	Extremely Poor Who Did Not Benefit From the Food Programs		Non-Extremely Poor Who Benefited from the Food Programs	
	Number Persons	Percentage of Total Population of Extremely Poor	Number Persons	Percentage of the Total Beneficiary Population
Lima	63,839	34	2,559,573	95
Urban Coast	198,589	33	1,283,074	76
Rural Coast	95,047	34	380,955	68
Urban Sierra	83,444	17	1,338,894	76
Rural Sierra	324,765	20	2,275,090	64
Urban Jungle	33,599	29	556,327	87
Rural Jungle	164,887	32	670,090	66
Total	964,170	26	9,064,003	76

Source: Vásquez, Enrique and Gustavo Riesco. *Op. cit.*

Coverage and leakage vary by geographical region. The region with the largest number of extremely poor people who failed to benefit from food programs was the rural Sierra.⁶⁸ In terms of percentages, the poorest coverage was on the coast: approximately one-third of extremely poor people living in Lima (34 percent), in other cities on the coast (33 percent), and in rural areas on the coast (34 percent) received no benefits from the country's food programs in 1997.

⁶⁸ Vásquez, Enrique, and Gustavo Riesco, *op. cit.*

Looking at the other side of the coin, the regions with the most non-extremely poor beneficiaries were Lima, with almost 2.6 million program beneficiaries, and rural areas of the Sierra, with almost 2.3 million program beneficiaries. In percentages, the highest leakage took place in Lima and other urban areas: in Lima 95 percent of the people who benefited from the country's food programs in 1997 were not extremely poor. The corresponding percentages for urban areas of the jungle and urban areas on the coast and in the Sierra were 87 and 76 percent, respectively.

Geographical and Cultural Barriers to the Delivery of Social Services

Peru's difficult topography, in combination with poor transportation, communications, and logistics systems, presents major obstacles to the delivery of food assistance as well as health, education, water and sanitation services.⁶⁹ Geographical isolation is still pronounced in the central and southern Sierra, where terrorist activities constituted a threat for many years. By restricting access to and from rural areas, especially in the Sierra and Selva, geographical barriers also have contributed to keeping Peru's large non-Spanish speaking population relatively unassimilated into the national economy. As a result, social sector programs still must be tailored to a wide range of ethnic, cultural, and linguistic differences, complicating service delivery even more.

Institutional Constraints Affecting Public Sector Delivery of Health Care Services

The Peruvian health sector recovered rapidly in the nineties with the recovery of the economy and the reduction of terrorism. Total public and private spending on health rose by over 50 percent in real terms in the three years after 1994.⁷⁰ The largest increase came from households' out-of-pocket payments for health care, which doubled in real terms between 1994 and 1997. The Ministry of Health (MINSa), which is the source of health services for most

⁶⁹ Riordan, James T., *op. cit.*; Amat y León, Carlos, *op. cit.*

⁷⁰ World Bank, *op. cit.*

of the poor, increased its spending by over a third in real terms during the same period.⁷¹

The supply of health services increased sharply, especially primary health care services; the number of primary health care clinics increased by two-thirds and their hours of operation expanded. Between 1992 and 1997, FONCODES, Peru's Social Investment Fund, spent about \$30 million in building or rehabilitating over 1,000 primary health care establishments for use by MINSA. The employment of health professionals increased by 55 percent, mostly in primary care positions.

Table 4.12
Health Sector Infrastructure
(1996)

	Total in 1996	Percent increase 1992-1996	Distribution of infrastructure in 1996				
			Minsa	IPSS	Military	Private	Total
Primary health care facilities	6,717	81	86	3	2	9	100
Hospitals	472	4	30	15	4	51	100
Hospital beds	42,979	NA	67	14	6	13	100

Source: World Bank, *Op. cit.*

Table 4.13
Health Sector Staff
(1996)

	Total in 1996	Percentage increase 1992-1996	Distribution of health staff in 1996				
			Minsa	IPSS	Military	Private	Total
Doctors	24,708	50	41	18	7	34	100
Nurses	16,139	45	58	23	10	9	100
Midwives	5,105	120	77	12	3	8	100
Dentists	2,622	89	53	13	13	21	100
Technical staff	44,742	NA	66	13	11	10	100

Source: World Bank, *Op. cit.*

Other Latin American countries invested heavily in health infrastructure during the nineties, attempting to regain ground lost during the eighties. According to a World Bank assessment,⁷² however, Peru was more successful than most in translating the

⁷¹ For more detail, see Table 4.5.

⁷² World Bank, *op. cit.*

physical expansion of the system into improved coverage and effective use. Coverage for immunizations and other preventive services has improved markedly. And the use of out-patient services – consultations – grew by almost 60 percent between 1994 and 1997 in rural areas as well as in the country as a whole.

The expansion of primary health care services to the poor was due in large part to the creation of a number of new, specially administered targeted programs. Two projects – Salud Básica and PACFO (Programa de Complementación Alimentaria para Grupos en Mayor Riesgo) – are financed by the public treasury. The financing comes from fresh funds (the budget for 1998 was approximately U.S. \$150 million), and involves no reorientation of existing funds. In contrast to the MINSA budget as a whole, the programs assign a large portion of their resources to the poorest regions of the country. Three additional targeted projects are funded by donors: the World Bank (Proyecto de Salud y Nutrición), USAID (Proyecto 2000), and the IDB (Proyecto de Fortalecimiento de los Servicios de Salud).

Table 4.14
Use of Health Care
(1997)

Geographical location	Ambulatory consultation in 1997		
	Total (in millions)	Percent increase 1994-97	Per capita
Total	63.5	59	2.6
Lima	22.2	99	3.2
Other urban areas	23.8	34	2.7
Rural	17.5	58	2

Source: Instituto Cuánto, based on Enrie 1994 and 1997

Using fresh funds to finance the new programs put off conflicts with the powerful organized groups associated with traditional services, especially Peru's national and regional hospitals. Today, however, with the need for more fiscal restraint, it is the new targeted programs that are likely to take larger cuts. Steps need to be taken, therefore, to reduce their vulnerability to fiscal or political crises. The targeted programs use many ad hoc arrangements. Many health staff members are hired under short-term contracts with higher pay to increase coverage in under-served areas. These arrangements make it easier to modify or dismantle the new programs in times of

fiscal constraints, which is exactly what took place when public funding for health shrunk in 1998.

Another challenge is to increase the quality of primary health care and increase the efficiency with which existing resources are used to deliver primary health care to the poor. The productivity of primary health clinics is low, with a national average of one to two consultations per health worker per day. Plus, primary health care services are not adapted sufficiently to local needs, which can vary greatly given the economic, cultural, and geographical diversity of the country. Services often are provided without local diagnostic assessments, for example, and are bound by unnecessarily bureaucratic rules.

New forms of organization, involving community participation, are emerging to increase effectiveness in primary health care. One system uses committees, called CLAS. The CLAS, composed of community members, help administer clinics in accordance with population-based local health plans. Indications are that the CLAS, which now operate 10 percent of MINSA's primary health clinics, are successful in increasing the effectiveness of the delivery of primary health services.⁷³ Nevertheless, the CLAS system faces growing opposition from regional government officials, who lose direct control over the clinics once CLAS are put in place.

Human resources lie at the root of many inefficiencies and inequities in the health system. Issues related to geographical distribution, skills mix, and human resource quality are especially important for provision of services to the poor. Geographical distribution has improved noticeably during the last two decades as physicians have been attracted to small cities as their populations and incomes have grown. More recently, the new targeted health programs have placed over 10,000 workers in less-favored locations. These programs provide substantial financial incentives, but workers have no benefits and no security on the job. Turnover is still very high in remote locations as higher incomes do not make up for the combined effect of the pull of professional careers, tied to city-based medical specialization and private practice, and the difficulties of life in what are frequently radically different cultural environments.

⁷³ Cortez, Rafael, *Equidad y calidad de los servicios de salud: el caso de los CLAS*, Centro de Investigación de la Universidad del Pacífico, 1998, p. 98.

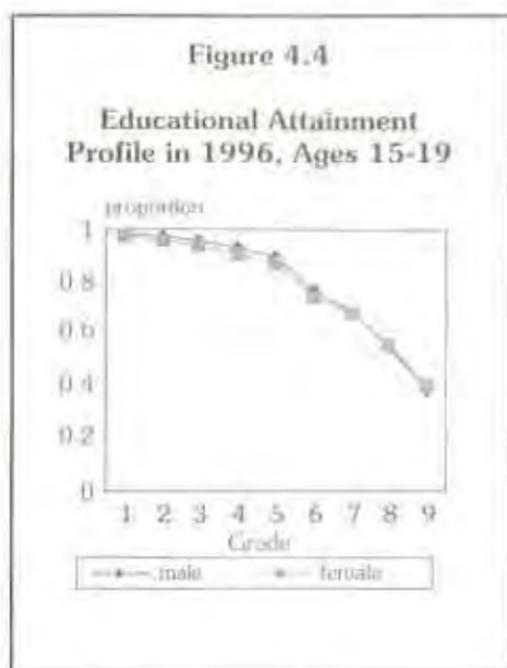
This conundrum is leading specialists to look for alternative solutions to the problem of serving rural communities.

One option under discussion would involve a change in the skills mix of local health workers, complementing them with stronger links to the rest of the health sector. Local workers would take more responsibility for the public health aspects of the job, while the clinical aspects would be addressed through improvements in communications, reference systems, and, perhaps in some areas, even the introduction of mobile physicians and new information technologies. Unfortunately, medical training in Peru has not kept up with the shift in national priorities toward primary and preventive health nor with the corresponding shift to community and rural health delivery models. As a result, an exploration of alternative organizational arrangements is in order.

Institutional Constraints Affecting Primary Educational Attainment

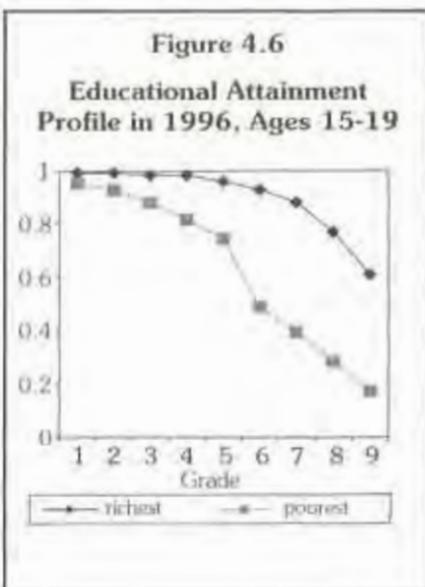
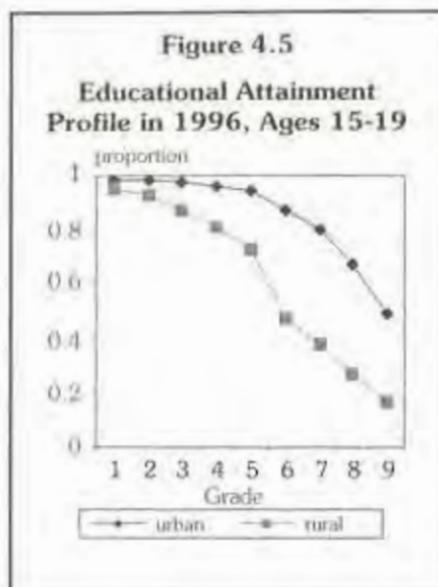
As indicated above, educational attainment is one of the most important determinants of poverty levels: Peruvians who live in households whose head had less than a secondary education are 70 percent more likely to be poor than the rest of the population. Primary education is essential because it provides literacy and numeracy and enhances the marginal productivity of labor. It also gives people more wherewithal to take charge of their lives.

Both primary and secondary enrollment rates have increased steadily since the beginning of the nineties, and gaps in enrollment rates have disappeared among school beginners. Differences in school attendance remain in secondary school, however, especially in rural areas and among children from poor families. An analysis of the levels of education attained by children aged 15 to 19 in 1996 supports these conclusions. In 1996, 97 percent of all children aged 15 to 19 had completed grade 1, and 85 percent had completed grade 5 (see Figure 4.4). Nevertheless, only 76 percent had completed grade 6, and only 40 percent had completed grade 9. In other words, the dropout rate increases as children move into the higher grades. What is particularly interesting is that there is relatively little difference between the educational attainment of girls and boys, at least at the national level.



There is a significant difference, however, in the educational attainment of children living in rural areas compared to those living in urban areas, and the differences are greater in the higher grades. Over 90 percent of children, whether urban or rural, had completed grades 1 and 2 in 1996. Almost 90 percent of urban children had completed grade 6, however, compared to less than 50 percent of rural children. And almost 50 percent of urban children had completed grade 9, compared to only 16 percent of rural children. Gender made a slight difference in rural areas. That is, the educational attainment level for girls living in rural areas was slightly lower than the attainment level for boys. But those differences paled compared to the differences due to location.

Poverty also makes a big difference, and more so at higher grades. Again, over 90 percent of children, whether from the richest or the poorest households, completed grades 1 and 2. Nevertheless, only 75 percent of children from the poorest households completed grade 5, only 50 percent completed grade 6, and only 18 percent completed grade 9. The corresponding percentages for children from the richest households were 96 percent (grade 5), 93 percent



(grade 6), and 61 percent (grade 9). Again, gender made a slight difference in rural areas. That is, the educational attainment of girls coming from the poorest households was slightly lower than the attainment of boys coming from the poorest households. But these differences paled in comparison to the differences due to household income.

A 1993 diagnosis of public education by the Ministry of Education, with the assistance of a number of donors, identified a number of problems, many of which continue today. Progress has been made in building new schools and rehabilitating old ones. But supplies of textbooks and school materials are still inadequate. And there is still a need for improving teaching methods and curricula and for adapting the curricula better to local needs. Teachers still need better training and better pay, and a mechanism needs to be found to attract teachers to work in under-served areas.

With the progress that has been made in increasing the supply of educational facilities, it is now time to focus attention on improving the quality of education, especially primary education, and improving the efficiency of the educational system. Promotion, repetition, and

dropout rates have improved during the nineties in both primary and secondary schools. Especially noteworthy are increased promotion rates and the drop in repetition rates in primary school. But there are still wide disparities in educational expenditures among regions – the poorer the department, the lower the per-student educational expenditure – and wide gaps in educational efficiency among regions and between urban and rural areas. Ways need to be found to increase educational attainment rates of children that lag behind – that is, children from poor households and those living in rural areas.

Returns to education are high in Peru, at least in urban areas, with returns to primary education high relative to returns to secondary and non-university higher education.⁷⁴ Still, between 1991 and 1996, educational premia (the differences in income levels associated with differences in educational attainment) increased the most for university-educated Peruvians, and may be one of the driving forces behind the increase in inequality during the nineties. What is particularly disturbing from a poverty reduction and sustainable food security objective is the apparent decline in returns to primary education.

Table 4.15
Measures of School Performance

Year	Primary education			Secondary education		
	Promotion	Repetition	Dropout	Promotion	Repetition	Dropout
1990/91	76.1	18.1	5.7	82.3	9.7	8.0
1991/92	76.1	17.7	6.3	82.1	9.7	8.2
1992/93	78.2	15.8	6.0	82.9	9.4	7.8
1993/94	80.1	15.6	4.4	84.3	9.1	6.6
1994/95	80.7	15.5	3.8	85.7	8.3	6.2
1995/96	83.8	12.6	3.6	86.9	7.5	5.6
1996/97	84.6	11.6	3.8	87.6	7.4	5.1
1997/98	84.1	11.6	3.5	87.9	7.3	4.9

Source: Instituto Cuánto, *Perú en números 1999*, Lima, 1999, p. 290, tables 6.2 and 6.3.

Elaboration: CIUP.

⁷⁴ Saavedra, Jaime, *op. cit.*

Table 4.16

Educational Premia in Urban Peru in 1991 and 1996
(percentages)

	1991	1996	Changes
Primary / no education	40	33	-7
Secondary / primary	7	17	+10
Secondary / Non-university higher	13	25	+12
University / Non-university higher	47	70	+33

Source. Saavedra, Jaime. *Op. cit*

Table 4.16**Educational Premia in Urban Peru in 1991 and 1996
(percentages)**

	1991	1996	Changes
Primary / no education	40	33	-7
Secondary / primary	7	17	+10
Secondary / Non-university higher	13	25	+12
University / Non-university higher	47	70	+33

Source: Saavedra, Jaime. *Op. cit.*

V. Strategic Approaches for Attacking Poverty and Food Insecurity

"Let us labor at trying to think clearly; herein lies the source of moral conduct."

- Pascal

"Often would the deaf man know the answers had he but the faculty of hearing the questions. Likewise would the unimaginative man guess wisely at the answers had he but the wit of posing to himself the appropriate questions."

- Viscount Mumbles

"We have sunk to such a depth that the restatement of the obvious has become the first duty of intelligent men."

- George Orwell

This chapter lays out policy and programmatic priorities for attacking poverty and advancing food security in Peru. Perhaps more importantly, it also seeks to explain the reasoning that has led to the selection of these priorities.

The previous three chapters present facts about poverty and food insecurity in Peru and the various factors affecting them. But facts do not always speak for themselves. To move from thought to action, one needs to filter competing alternatives through a development paradigm. Without such a paradigm, it is difficult to know which of the panoply of constraints discussed in Chapter 4 it makes sense to attack first. Accordingly, this chapter not only makes policy and program recommendations, but also attempts to lay out a conceptual framework for selecting among competing points of entry for attacking Peru's poverty and food insecurity problem.

5.1 Major Findings and Conclusions

Although this document focuses on the poverty side of the equation, it is rooted in a broader conceptual framework of food security. It therefore makes sense to summarize findings and conclusions, first, under the rubric of food security and, second, under that of poverty.

Findings and Conclusions: Food Security

Of the three dimensions of food security – availability, access, and utilization – lack of access continues to be the root cause of food insecurity in Peru. In other words, *Peru's food insecurity is more than anything else a question of poverty*. If poverty can be reduced, lack of availability and poor utilization can be addressed as well.

The remainder of this chapter outlines a strategy that attaches the highest priority to poverty reduction. As discussed in Chapter 1, however, poverty reduction is a medium- to long- run proposition. In the short to medium term, large numbers of Peruvians will continue to be malnourished or at nutritional risk. In particular, substantial numbers of young children will continue to be vulnerable to irreversible physiological damage and low cognitive and long-term productive capacity unless measures are taken to ensure they can benefit from whatever food they are able to access, given the incomes of their households. As a consequence, the proposed strategy's primary focus on income generation for the poor must be complemented by a focus on utilization, especially on Peru's most nutritionally vulnerable population: children less than three years of age that are either currently malnourished or at high nutritional risk.

Strategically, food availability is an important, but secondary concern. If Peru's poor were not poor – that is, if they could translate nutritional needs into effective demand for food – food availability would increase markedly, either through increases in national production or through increased commercial imports. Producing food often is a cost-effective way for poor households to increase their access to food. But increasing food production is only one – and not always the most cost-effective – way to reach that result. Furthermore, it is not an end in itself.

Findings and Conclusions: Poverty

During the decade leading up to the new millennium, the Peruvian economy underwent a metamorphosis. Robust growth and major increases in public sector social expenditures alleviated the severity of the economic crisis of the late eighties and early nineties. From 1994 to 1998, annual GNP grew at an average of 8 percent, and 1.3 million new jobs came into being. The public sector social investment budget more than tripled from 1991 to 1999, and expenditures for direct food assistance programs increased nearly five-fold. More people than ever before now have access to basic education and health services, potable water, and direct food assistance. Chronic malnutrition in children under five declined from 36.5 percent in 1991-1992 to slightly more than 25 percent by the end of the decade. *Per capita* availability of calories and protein shifted from severe deficits in the early nineties to surpluses by 1998. And the share of the total population that was extremely poor declined from approximately 27 percent in 1991 to slightly less than 15 percent in 2000.

Unfortunately, the news is not entirely rosy. Despite continued attention to macroeconomic stability and major expenditures on social programs, magnitudes of malnutrition, extreme poverty, and overall poverty remain at unacceptably high levels. As many or more Peruvians are extremely poor now as in 1991; the percentage of the population that is poor, but not extremely poor, is unchanged. In other words, the poor have grown apace with total population. Although employment growth has taken place, most new jobs are precarious and, proportionally, have accrued less to the lowest income quintile than to higher quintiles. Income gaps have increased between rich and the poor, as well as between urban and rural populations. Two-thirds of rural inhabitants are still poor, and one-third are extremely poor.

Figure 5.1 summarizes the key elements of this discussion graphically.¹ On the positive side of the ledger, Peru has made relatively steady progress in reducing both chronic malnutrition and infant mortality. On the negative side, poverty and extreme poverty have been more resistant to change. Worthy of note, however, is

¹ The authors are indebted to PRISMA for portraying these relationships.

Figure 5.1

Changes in Economic Growth, Poverty, Child Mortality and Malnutrition in Peru



the close association between economic growth, on the one hand, and poverty reduction and chronic malnutrition, on the other. When

GDP *per capita* increases, poverty and chronic malnutrition drop. When GDP *per capita* stagnates, so too does progress in reducing poverty and chronic malnutrition.

Peru's poorest people did not participate equitably in the robust economic growth of the nineties, which was concentrated disproportionately in Lima. Similarly, a disproportionate share of the benefits of social programs has accrued to populations other than the poorest and most food insecure. Clearly, major improvements in *targeting* are in order if Peru is to attend to the needs of its most vulnerable people efficiently and effectively in the future.

In summary, Peru has made impressive strides in ameliorating poverty and improving food security through macroeconomic stabilization, robust economic growth, and major increases in social investment, but the task ahead remains daunting, to say the least. To make a permanent dent in poverty, stable economic growth will continue to be essential. So, too, will investment in social programs. On the one hand, sustained investment in basic social services will prepare poor people to become healthy, educated members of a productive and competitive work force in the future. On the other hand, social safety net programs are essential to alleviate poverty that is intractable to productive investment in the short run. Yet, for the social safety net to be effective, giant leaps in quality and targeting efficiency are in order, especially in reaching those most vulnerable nutritionally – namely, poor households with children less than three years of age at high nutritional risk.

5.2 Vision of Peru in 2010

It is one thing to define Peru's poverty and food security problem and enumerate constraints to solving it; it is another thing to suggest appropriate solutions. To do that, one must have a clear conception not only of where one is now, but of where one would like to go. In what follows, the strategy team presents a vision of Peru in the year 2010. The vision is not a projection, but rather a value judgment tempered by a sense of the possible. By making its desired destination explicit, the team presumably can make more informed choices among competing policy and program options on how to get there.

This vision, which follows paints a picture of what Peru ideally will be like in the next decade, is based in the assumption that things go reasonably well between now and then. It is important to bear in mind that the vision is medium term. Clearly, the events of September 11, 2001, underscore that one must be extremely cautious about expecting a significant economic turnaround in the short run. Still, over a decade's time, it is reasonable to expect that enlightened public policy, accompanied by a positive response on the part of private sector investors to this policy and improvements in the targeting of social programs, can counterbalance and correct for the deficiencies of the *covuntura*, including the crisis of confidence bequeathed by the Fujimori administration and the concomitant difficulty of lurching out of ongoing recession.

Characteristics of the strategy team's "realistically optimistic" vision of Peru in 2010 are:

- Extreme poverty will have dropped substantially, to as little as 8 percent of the population. Even so, pockets of extreme poverty still will exist throughout Peru, especially in the rural Sierra, where the proportion of the population in extreme poverty will be 18 to 20 percent.
- Poverty will have dropped substantially as well, from roughly half to roughly one-third of the population. Today, poverty is a more rural than urban problem. However, by the end of the decade, urban poverty will have become as significant as its rural counterpart.
- Chronic malnutrition will have diminished at a rate similar to that of extreme poverty. Nationally, the rate of chronic malnutrition will be 12-15 percent. In the rural Sierra, it will be 30 percent.
- Peru's population will have become increasingly urban. Some 80 percent of the population will live in cities. Intermediate cities, especially those in the jungle, will have experienced rapid growth. Lima will have grown, but its rate of growth will have slowed.
- With urban migration, population pressure on agricultural land will have diminished, especially in the Sierra. An ongoing process of land consolidation will have taken place.

- The economy will have grown substantially, accelerating its growth from rates of 2 or 3 percent at the beginning of the decade to rates of 6 to 8 percent by 2010.
- Primary agriculture will have grown, but less rapidly than other sectors. Activities with backward and forward linkages with primary agriculture will have become more important. Intermediate cities will have created platforms for expansion of agribusinesses – that is, activities that provide inputs to agriculture and process and market final products. In short, primary agriculture and related industries will have become more modern and productive.
- Labor-intensive activities will have grown more rapidly than capital-intensive activities. Examples include agribusiness, tourism, construction, and manufacturing. Despite the expansion of these activities, employment generation still will be a major national concern.
- Social expenditures will increase in absolute terms, but decrease as a proportion of GDP. As extreme poverty falls, the quality and efficiency of social expenditures will become more important than their coverage.
- Social expenditures will be better targeted and reach a larger proportion of extremely poor people in rural areas. Still, there will be pockets of the rural poor, especially in the Sierra and Selva, whom health, nutrition, and education services still will fail to reach.
- Social expenditures will have expanded markedly in the intermediate cities of the country. Nevertheless, heavy rural-urban migration will make it difficult for public budgets to satisfy all the health, nutrition, and education service needs of urban populations. The percentage of urban people in poverty will have fallen, but the absolute number of urban poor will not have changed significantly.
- Peru's educational system will have improved substantially. School attendance will have risen, especially in primary schools. Also, a notably larger proportion of young people will have finished secondary or technical school. By the end of the decade, as a result, it will be possible to discern growth in national labor productivity.
- Productive investment, both private and public, will have

grown significantly, especially in economic corridors with high potential. The investments will increase economic dynamism outside metropolitan Lima, contributing to the decentralization of economic power.

- Local government expenditures will have increased, and become more efficient and effective. Communities will be more involved in resource allocation decisions.
- Peru will have expanded its exports substantially, not only of mining products, but also within agriculture and other sectors. Proportionally, exports will have become a much larger proportion of GDP. The country will have begun to specialize in products in which it has a comparative advantage. Peru will not necessarily be more food self-sufficient, but it will be more food secure.
- As a result of the creation of a more predictable economic environment, Peru's pattern of economic growth will have become less volatile over time. The country will not experience large swings in rates of economic growth from one year to the next.
- Finally, the country will have strengthened itself institutionally. The political environment will have become more transparent, and corruption will have fallen in both the public and private sectors.

5.3 Principles for Setting Priorities to Attack Poverty

Every strategy team brings a mindset to its interpretation of the facts. Ultimately, acceptance or rejection of its recommendations depends on the degree to which readers share that mindset. Prior to proposing specific policy and program directions for consideration, therefore, this section attempts to make explicit the principles guiding the team's selection of policy and program priorities.

With the benefit of hindsight, the presentation of principles probably was the most significant contribution of the original Food Security Strategy. Although one can always quibble about the relative merits and feasibility of implementation of specific recommendations, ultimately the most important test of a strategy is whether it affects the way readers think about a problem and react to it. By that

criterion, the importance that many in Peru now attach to the concept of economic corridors – which, in the end, was an outgrowth of the strategy – bears witness to the impact that the paradigm shift proposed in 1994 has had. In the same spirit, this section lays out a set of principles – some the same as in 1994 – to guide policies and program actions for attacking poverty over the next decade. The advisability of the recommendations at the end of this chapter rides or falls directly on the merits of the logic embodied therein.

Principles From the 1994 Strategy

As one might expect, a number of the principles presented in the original Food Security Strategy are equally applicable today. The discussion that follows, therefore, is divided into two parts. The first part enunciates many of the principles from 1994, refining them, when appropriate, to fit the context seven years later. The second part sets out new principles that experience over the last seven years suggests it would be wise to bring to bear. First, therefore, principles from the original Food Security Strategy:

There are so many worthwhile things one can do to attack poverty in Peru that one can justify practically any intervention he or she can think of. The difficulty is that the resources available to address poverty pale alongside the magnitude of the problem. As a consequence, opportunity-cost thinking is essential.

When faced with the juxtaposition of a plethora of needs and a modicum of resources, one must assess carefully how one chooses to allocate development resources. Any time a scarce resource – a dollar, a sol, or food – is spent on one thing, it means that it is not spent on something else – where, potentially at least, it might fetch a higher social return. A good program is not necessarily a high-priority program.

Firm, coherent monetary and fiscal policy is essential to keep Peru's economic house in order and to bolster public confidence in economic policymaking.

Despite backsliding on the fiscal front at the end of the decade, one of the achievements of the 1990s was to restore monetary and fiscal order. There must now be no turning back. A consistent hand at the macroeconomic policy rudder is a precondition for sustained, steady growth in the future.

For a country like Peru to reduce permanently the number of its people in poverty, its economy must grow for a number of years at a rate of 8 to 10 percent a year.

Growth in gross domestic product on the order of 4 to 5 percent a year obviously is better than no growth at all, but does not amount to much more than a holding pattern. For sizable numbers of poor people to cease being poor, sustained and dynamic growth is essential. As experience in Peru and other parts of the world bears witness, under ordinary circumstances growth of that magnitude is not a pipedream. But, as a consequence of the events of September 11, circumstances no longer are ordinary, and it may be years until Peru can tap into world markets aggressively enough to return the economy to buoyant growth. Regardless of how long it takes, though, it is imperative for Peru to recognize that it cannot make a sizable, permanent dent in poverty unless it achieves growth rates of that order – and for that to happen, it must be prepared to depart from business as usual.

Peru's legacy of activism by the state has been exacerbated by government, nongovernmental, and donor responses to the economic crises of recent years. The result is a climate of asistencialismo, which is antithetical to a long-term poverty alleviation strategy.

Years of heavy state intervention have engendered a widely accepted but counterproductive way of thinking about how to bring about broadly based economic growth in Peru. If the proposed vision of Peru in 2010 is to have any validity, a collectively shared mindset of self-reliant entrepreneurship must replace institutionalized rent-seeking. Although the economic crises of the last 15 years have called for direct delivery of goods and services to target beneficiaries, the time has come to reintegrate the poor as active participants in the market economy. The challenge is not to substitute for market forces, but to make markets work for the poor.

For Peru to make a permanent dent in poverty, the productivity of its poor people must increase. For the productivity of its poor people to increase, they must have more capital, both physical and human, to work with.

Peruvians are hard-working people. Why then is the productivity of Peru's labor force so low? In comparison with labor forces in other countries, the Peruvian labor force has relatively little physical capital at its disposal and exhibits relatively low levels of educational attainment. As a consequence, investment promotion and education call for high-priority attention.

Realistically, poor people have limited capacity to expand physical capital on their own. As a result, one must look to the non-poor, both in and outside Peru, for the lion's share of the investment required for future growth in jobs and incomes.

For many purposes, it is desirable and admirable to work directly with the poor in resolving their problems. Realistically, though, there are limits to how far, by itself, such a strategy can go. Peru's needs for employment-generating investment far exceed the capacity of poor people to do it themselves. That is especially the case for the poorest of the poor, who lack resources of their own and, to whatever extent they can, must make their living by selling their services in the labor market. For them, the solution to their plight is not investment on their part, but jobs provided by others. In short, investment in labor-intensive businesses – and the creation of a climate that attracts such investment – are of primordial importance. To put it another way, to generate jobs, Peru needs to attract risk-taking *employers*.

In Peru, as elsewhere in the world, education has been and probably always will be a major escape valve for the children of the poor.

Experience worldwide suggests strongly that education is the surest way for a government to set a nation on the path to a more equal distribution of income. Although one does not see the result immediately, human capital is an asset that an individual has all through life.

In Peru, it is common to deplore the growth of capital-intensive over labor-intensive economic activities. Taken in context, such a preoccupation makes sense. But it should not blur the fact that poor people need capital – again, both physical and human – to work with if they indeed are to become more productive and, all other things being equal, earn higher incomes. Expanding menial jobs is not an adequate solution to Peru's employment problem.

Both macroeconomically and locally, the major constraint to development in Peru is lack of effective demand. As a result, connections with outside markets are essential. In other words, Peru must trade, both externally and internally.

Nationally, Peru's productive apparatus is constrained by the low level of effective demand – that is, purchasing power – within the country. As a practical matter, therefore, Peru has no choice other than to look to external markets for buyers of its goods and services – and to make its investment climate one that is oriented outward rather than inward. Opening up to trade is not a luxury, but a necessity. Accordingly, the initiatives undertaken by the current government to gain access to external markets under equal conditions is time and money well invested.

Microeconomically, it is very common in Peru to debate production potentials. Too often, the debate focuses almost exclusively on technology and abstracts from market considerations. Unless there are markets to absorb increases in production, emphasizing productivity alone will be counterproductive. This is especially true for Peru's rural poor, whose markets are small and price-sensitive.

In Peru, the best public investment for expanding market access is roads.

In principle, there are a variety of policy and program actions that can link markets together and tie currently poor people into those markets. In Peru, however, there is little doubt that the poor state of roads – both trunk and access roads – is the major impediment to integrating domestic markets and linking them in turn with international markets. As a result, the rehabilitation and maintenance of the country's road network must be public investment priority number one.

The place one finds a problem is not necessarily the best place to attack it. As a case in point, the location of the majority of Peru's poorest people in rural areas does not necessarily make rural areas the best place to attack their poverty.

It is one thing to identify and describe who the poor are. It is another to define appropriate programmatic responses to assist the poor in bettering their lot.

Although Peru's poorest people live in rural areas of the Sierra and engage in agriculture, among other pursuits, the evidence in previous chapters underscores the clear overpopulation of the rural Sierra demographically, economically, and environmentally. As a consequence, strategies that focus on raising agricultural productivity in those areas are simply not up to the task, by themselves, of generating sufficient incomes to lift significant numbers of households out of poverty. Such considerations suggest that it may be advisable to consider program responses outside the areas of extreme poverty themselves. Peru's rural poor appear to have internalized that lesson themselves, as the diversity of their income sources bears witness.

The logical place to direct productive infrastructure and services is the country's intermediate cities with economic potential, together with their respective countrysides.

In one sense, promotion of growth in Peru's intermediate cities and neighboring countrysides is the country's only reasonable development choice. On the one hand, the current pattern of mass migration to Lima is neither desirable nor sustainable. On the other hand, Peru's rural areas are overpopulated *now*, and will continue to be so, even with conceivably dramatic increases in agricultural productivity. Moreover, and as painful as it may be to acknowledge, reaching all of Peru's poorest people with productive interventions – and Peru's poorest people are, almost by definition, its most isolated physically – lies beyond the country's budgetary grasp. Hard choices therefore must be made. As a matter of relative priority, directing productive infrastructure and services to those intermediate cities and corresponding countrysides with economic potential is the sensible choice – not only to service a substantial portion of Peru's currently poor population, but also to furnish relatively

attractive places for currently isolated poor people to migrate in the future.

The argument for restricting productive infrastructure and services geographically does not extend to the provision of basic education and primary health care. Extending basic education and primary health care services throughout rural areas not only is an appropriate poverty alleviation measure; it also prepares redundant labor to migrate to cities educated and healthy – and productive.

The role of government is to encourage private sector activity. It is not to pick winners, to make productive investments, or to produce. Those responsibilities lie with the private sector.

Although the government can generate temporary employment through programs such as A Trabajar and MiVivienda, it does not have the wherewithal, by itself, to create permanent jobs for the majority of Peru's poor people. Still, government policies have much to do with the degree to which private economic activity flourishes and the degree to which those relatively poorly endowed participate in that activity. In essence, the government has two fundamental roles to play: first, to set clear and transparent rules for market activity and to enforce compliance with those rules; and, second, to invest in public goods – physical infrastructure, primarily – essential for the conduct of private economic activity. Of all the actions that a government can take, these are the most basic – and those that typically will have the biggest impact in lowering transaction costs in the economy and making it more competitive.

Roads probably are the most common example given of public goods that reduce market transaction costs. There also are other, less obvious examples of public goods that governments and donors can invest in for the same end. The provision of non-financial business development services is a case in point. Although private parties are the logical choice to provide such services, the externalities associated with them argue for the advisability of financing them with public funds.

Principles in Light of Experience Since 1994

Experience since 1994 not only has surfaced additional principles to guide policy and program priorities for fighting poverty,

It also has shown that some of the original principles did not go nearly far enough in their operational implications.

Not only is lack of effective demand the key constraint to development in Peru. Demand is the point of entry for attacking its poverty.

All constraints to reducing poverty – and all points of entry for attacking it – are not created equal.

Most development practitioners are willing to accept the above argument that lack of demand constitutes developing economies' principal constraint and argue, accordingly, that trade is essential for broadly based economic growth. Interestingly, though, few apply the same logic to the sectoral and microeconomic sphere. Although "market-oriented" and "demand-driven" approaches are now in vogue, few put the demand horse squarely in front of the supply cart. It is one thing to argue for connections with markets; it is quite another to look to – and accept – demand as the engine of the process. Development experience is replete with agricultural technology transfer programs that have foundered in the absence of demand. But development experience also points up the opposite side of the coin: small farmers can and will adopt modern practices, but only when they know beforehand that someone will buy their product at an acceptable price. In short, when demand is present, it furnishes incentives for economic actors to address supply constraints; when it is absent, attacking supply constraints is tantamount to pushing on a string.

The literature that has burgeoned in recent years on the importance of non-farm income to poor farm households is a further illustration of the need to rethink inherited development paradigms. Although the literature in question acknowledges the potentially significant role that linkages with intermediate cities can play in reducing poverty, the underlying paradigm arguably has it backwards: instead of starting at the market and looking back to the farm, it starts at the farm and looks out to the market. In the final analysis, the thinking is the conventional production-based farm management model with demand simply grafted on to it. Again, despite claims to be demand-driven, the model is really supply-push: do what you normally do on-farm and then figure out how to connect to the market afterwards – as opposed to taking the market as the starting

point and adjusting productive activity to it. In short, the thinking is *vender lo que se produce*, when what is called for is *productir lo que se vende*. A market-driven approach is not one that figures out how to market one's given product. It is one that heeds what the market is demanding – quantity-, quality-, and timing-wise – in the first place. In other words, the challenge is for suppliers not just to *articular* with demanders, but to react to demanders.

If one sees the development process as driven by demand, pitting city against countryside makes little programmatic sense. In fact, urban and rural areas fit naturally together in what can be termed "economic corridors."

The original Food Security Strategy argued for a shift in programmatic emphasis toward Peru's intermediate cities, but still couched much of the argument in dichotomous terms – that is, whether it makes sense to invest in cities as opposed to the countryside. In doing so, it failed to do adequate justice to the ties that bind urban and rural areas together.

Development is driven by demand. Demand for rural products is found primarily in cities. Cities drive rural development.

Agricultural production takes place in rural areas, but the income and employment generated as a result extend far beyond the farm. From both the demand and supply perspectives, therefore, it is time to break down artificial conceptual barriers between these two supposedly distinct economic domains.

It is useful to relate this discussion to the distinctions drawn above between supply- and demand-side approaches to development. In general, there are two ways to view agricultural and rural development: as a *supply-push* process and as a *demand-pull* process. If one thinks of agricultural and rural development in supply-push terms, one focuses on productivity concerns and how much additional product one can «push» from the countryside. If one conceives of development more as a demand-pull process, then the focus shifts to looking at overall effective demand in the economy and the potential role that cities and market towns can play in «pulling» agricultural production out of rural areas. Both development theory and programmatic experience in a variety of countries, including Peru, suggest that the latter perspective is the more appropriate of the two. When the development process is viewed

in that way, city and countryside are not rivals, but allies. The two demand goods and services from each other: in the city, industries with backward and forward linkages with agriculture grow and mature, and absorb the continuing exodus of rural dwellers; in the countryside, increases in effective demand in the city furnish real incentives to invest in primary agriculture and make it more modern, productive, and profitable.

Experience under a number of development projects illustrates the wisdom of adopting the demand-pull approach programmatically. Perhaps the prime example is the USAID-supported Poverty Reduction and Alleviation (PRA) project. Through its economic service centers, PRA provides business development services in 10 economic corridors in the highland and jungle areas of the country. *Economic corridors* are natural economic regions defined by commercial flows between rural areas and intermediate cities, and among intermediate cities themselves. Other projects that highlight the primacy of demand are INCAGRO, supported by the World Bank, and commercial relationships promoted by CIPCA and La Procesadora in the northern part of the country.

Migration is a good thing, not a bad thing.

The merits of migration are a natural corollary of the argumentation presented above. Given the continued predisposition of many to think in "keep-them-down-on-the-farm" terms, however, it is worthwhile to make the proposition explicit. In the final analysis, labor is a mobile, not a fixed factor of production. More than that, international evidence suggests that the greater the mobility of a country's labor force, the higher its level of development.

The primacy of demand has much to say for the how-to of microenterprise development.

Throughout the recent presidential campaign, candidates were wont to cite the statistic that micro- and small enterprises make up 98 percent of all enterprises in Peru, concluding that they therefore merited support. Some went so far as to claim that micro- and small enterprises can be the engine of growth for Peru in the future. Unfortunately, the statistic cited points up the problem, not the solution. And the claim that micro- and small enterprises can drive development misreads the dynamics of the development process.

Available data on the employment intensity of enterprises of different size suggest that it is to *small and medium* enterprises that one must look for the expansion of incomes and employment that much of the country's poor – especially its urban poor – desperately needs. For microenterprises to transform themselves into small enterprises is no easy task, nor is the transition from small to medium enterprise a simple matter. In the first instance, the transformation typically involves shifting out of informality: for this to occur, the expected increases in income must be substantial. In either case, firms need buyers. In the absence of buoyant consumer demand or large firms predisposed to subcontract for goods and services, there is little incentive for micro- and small enterprises to take the steps required to specialize, increase efficiency, and earn more money.

To date, the government and donors have chosen to support micro- and small enterprises primarily through technical assistance and microfinance services. Without identified buyers, however, technical assistance can only go so far. And although microfinance provides an invaluable service in stabilizing incomes and alleviating household insecurity, in the end it is essentially a safety net, not an economic growth strategy.

What, then, to do? Although attempts at *articulación* have met with limited success to date, in the end it is only market demand that will furnish adequate incentive for micro- and small enterprises to increase (in size) and multiply (in numbers). In other words, improving the lot of Peru's micro- and small entrepreneurs means looking elsewhere – once again, to sources of demand for their goods and services. Doing so is not "trickle-down" economics, but a simple recognition of the demand-driven nature of the development process as well as what the burgeoning literature elsewhere in the world tells us about the potential of outsourcing and subcontracting mechanisms.

A final comment. The bevy of surveys of microentrepreneurs worldwide over the last two decades buttresses this line of argument. When interviewers ask microentrepreneurs what the most important thing is they need to get ahead, the typical response is, "connect me with a buyer." It is not, "improve my technology" or even "provide me credit." Again, resolving demand problems comes first. The other constraints, though important, are second-order problems.

Tax, tariff, and interest rate interventions are inappropriate instruments for favoring selected economic sectors or regions over others. Let fiscal policy apply equally to all. If public policy wants to promote specific sectors or regions, invest in public goods to lower the transaction costs affecting their competitiveness.

There is little doubt that tax rates in Peru are high and need to come down. Doing so selectively, however, creates distortions, giving some economic activities or regions artificial advantages over others, often benefiting relatively few. All other things being equal, it also furnishes little incentive for the economic actors in question to effect real cost reductions, thus leaving their underlying competitive position essentially unchanged. In the final analysis, it is competition that breeds competitiveness, not tax breaks.

Over the years, the legacy of heavy state intervention in the economy has created mirror expectations among the voting public: Unless a government takes visible measures to lower tariffs on selected imports, grant tax exonerations to businesses in trouble, keep interest rates down for certain borrowers, and so forth, it is not seen as doing its job. The danger of this legacy, of course, is that it runs directly counter to a basic dictum of a market economy – that it is the task of the market, not the state, to determine relative prices and, accordingly, the allocation of society's productive resources. None of which is to say that government cannot favor some sectors or regions over others. It is perfectly natural, for example, to want employment-intensive activities such as agribusiness, tourism, construction, and manufacturing to grow and flourish. The question is finding the best way to make that happen.

As a rule, it is much better to invest in physical infrastructure and non-financial business services to reduce directly and transparently the transaction costs that stand in the way of target sectors' or regions' becoming competitive. With the focus on the underlying competitiveness of the sectors or regions in question, private parties can then take appropriate decisions. If producers can compete in the market under such conditions, fine. If they cannot, fine, too. If other goods and services are more profitable under prevailing market conditions, that is where economic activity should shift. The Peruvian Exporters' Association expresses the basic point as follows:

"The promotion of exports does not require special and exclusive sectoral measures but a competitive environment the same for all: few taxes without exceptions or exonerations; a structure of relative prices (consumer prices, interest rates, the exchange rate) that is stable and in line with international levels; infrastructure costs similar to those of our competitors; elimination of excess costs, etc. Under these conditions businesses can compete with products made anywhere in the world. (*Perú Exporta*, No. 289, May-June, 2001, p. 4.)" (*Perú Exporta*, No. 289, May-June, 2001, p. 4.)

The demand-driven principle has far-reaching implications for the provision of social services.

The primacy of demand has applicability not only to the promotion of productive activities but also to the provision of social services. In designing social safety net programs, it is common to take the supply side as one's starting point – that is, worrying about who shall provide the services in question. All other things being equal, it is more cost-effective to fund the demanders rather than the suppliers of the services. Two examples suffice to make the point.

When children reach weaning age, they are especially vulnerable nutritionally. Accordingly, a major concern of nutritionists is the availability of appropriate weaning foods, especially in poor rural areas of the Sierra. Over the years, researchers have developed a number of formulas that rely primarily on food products grown locally. Once they develop the formulas, the designers' knee-jerk reaction is to look for someone to produce them on a commercial scale. The danger, of course, is the tendency to create a sweetheart deal for the supplier, setting him or her up in a quasi-monopoly. An alternative design strategy would be to distribute "papilla vouchers" to eligible mothers in poor rural communities, thereby converting them into a source of effective demand for the formulas in question – and furnishing a market incentive for firms to compete for their business, giving them not only a choice, but ultimately a lower-priced product.

In a similar vein, designers of technical training programs for the poor are wont to create special institutes to provide the training

in question. Again, an alternative design strategy would be to finance scholarships for needy students, allowing them to choose what technical schools they will attend, thereby providing market incentives for suppliers to compete for students – and deliver an up-to-date quality educational product.

In both these examples, note the healthy distinction between financier and implementer: government assumes the former role and private parties the latter, building on the respective strengths of each. More broadly, the examples also suggest the appropriate functions of government in such instances: defining the programs, setting specifications for the products in question, monitoring compliance, and evaluating impact.

Direct purchases by government locally are a two-edged sword: although they boost local demand temporarily, they run the risk of distorting product and factor markets.

Managers of food assistance programs can source their food in two ways, either by transporting food into the area or by buying it locally. All other things being equal, it is natural for project managers to opt for the second alternative. “Why should we pay more for food from outside the project area?” they argue, adding, “if we buy food locally, we give a boost to poor farmers in the area, extending the benefits of the project even more.” At first glance, the case for purchasing locally appears airtight. In practice, however, the option can have drawbacks. First is the temporary nature of the demand injected into the area, a demand that creates expectations that government often is not prepared to honor long term. More seriously, food assistance programs have tended to buy local produce at prices above the local market’s, thereby undercutting established commercial relationships, which it is often difficult to repair once the program of subsidized purchases come to an end.

The same argument applies to local labor markets. Economy-wide unemployment statistics are ample justification for temporary public employment programs along the lines of the current government’s A Trabajar initiative. In a number of local markets, however, labor often is in shortage, not in abundance, especially during the harvest season. In such cases, the entry of government employment programs can have the perverse effect of bidding up local labor costs to levels that make it attractive for employers to

invest in capital as a way to economize on labor. The point, obviously, is not to refrain from launching temporary public employment programs, but to exercise care in carrying them out. In this connection, USAID's experience in food-for-work programs suggests the advisability of paying wages slightly below the going wage as a way to ensure that the program reaches its target beneficiaries – namely, poor people who really do not have other employment options.

Food is a necessary but not sufficient condition for good nutrition.

Malnutrition is not just a disease, and food is not its cure. Rather, malnutrition is a state that results from a number of interrelated variables. Although food can be useful as an income transfer and to lure nutritionally vulnerable mothers and children to health services – in fact, often recompensing mothers for the difficulty in getting to them – food *per se* typically is not the key variable at work.

5.4 Recommended Policies and Program Actions to Attack Poverty and Food Insecurity

As the argument presented both in previous chapters and in the previous sections of this chapter makes clear, the factors affecting poverty and food security are legion. For that reason, unless one is ambitious enough to launch a full-fledged *Plan de Gobierno*, any list of recommendations to attack poverty and enhance food security must necessarily be partial.

Below the strategy team presents illustrative examples of policy and program actions that can contribute to the reduction and alleviation of poverty, as well as improve Peru's food security. As discussed in Chapter 1, the examples are organized in three parts: first, policies and program actions conducive to boosting productive investment in physical capital; second, policies and program actions for increasing productive investment in human capital; and, third, measures associated with social spending and policy.

Although the recommendations are not exhaustive, they do deal with key policy and program choices. More than that, they illustrate how one can apply the principles elucidated above to

specific policy and program issues. That, in fact, may be the major contribution of this document. In Peru, the tendency to look to government to solve problems typically leads to a limited and counterproductive conception of poverty and food security problems, giving government more credit than befits its role in a market economy, and belittling the contributions of private parties. Although government obviously has a significant role to play in defining rules for market activity and investing in public goods that reduce transaction costs in the economy, finding a permanent solution to Peru's poverty and food security problem hinges directly on the extent to which private economic actors invest, grow, and create jobs. Even in social safety net programs, the private sector can make a significant contribution through the implementation expertise it brings to the table. In short, therefore, what the recommendations below serve to do more than anything else is to challenge conventional thinking by pointing out how market principles and solutions can contribute to the solution of some of Peru's most pressing problems – arguably, in fact, better than traditional interventionist approaches.

The examples below make a further contribution. The typical anti-poverty or food security strategy goes to great lengths to list the various actions that one must take to achieve the objective in question. Very rarely, however, does the strategy say what *not* to do. That is unfortunate. In practice, resources are not infinite, and decision makers must make choices – that is, say that A is more important than B, B is more important than C, and so forth. For better or worse, the examples below do that. In doing so, of course, they do not play it safe. Even though some recommendations may appear controversial, they are offered in a constructive spirit. The intent is not to be provocative for its own sake, but rather to generate honest reflection in the search for solutions that really work. Whether the document succeeds in that regard is for the reader to judge.

Table 5.1

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital		
Issue	Rationale	Recommendations
1. Geographic priorities	Geographically, the concept of "economic corridors" is a useful tool to guide public investment in physical capital.	Prioritize public investment in physical capital by "economic corridors" with high indices of poverty, giving preference to those with economic potential.
2. Market transaction costs	High market transaction costs, e.g., obtaining information about buyers, technological alternatives, and investment and finance opportunities, constitute a serious impediment to productive private sector investment.	Finance privately managed business promotion centers through competitive performance contracts. The centers would provide non-financial business development services to reduce market transaction costs in economic corridors.
3. Non-market transaction costs	High non-market transaction costs, e.g., contract enforcement, dispute resolution, obtaining operating permits, constitute a serious impediment to productive private sector investment.	Incorporate alternative dispute resolution mechanisms into commercial contracts. Set up "one-stop shops" in economic corridors to provide public services required by potential investors and existing enterprises, consolidating regional offices of ministries and other public sector entities.
4. Functional priorities	The public investments with the highest economic return, i.e., most likely to stimulate private sector economic activity, are roads, electricity, and water.	Focus public investment in physical capital in roads, electricity, and water. Expand the use of concessions and competitive performance contracting for such investments.
5. Equity vs. efficiency	The principle of equal access applies well to social services such as primary health care, nutrition, and basic education. In contrast, public investment in physical capital should conform to economic criteria.	For social infrastructure, invest throughout the country, targeting with poverty maps or similar tools. For productive infrastructure, focus in economic corridors with economic potential. Give priority to trunk and access roads that link areas of potential with markets, complementing other investments. Limit INADE's and FONCODES's purview to infrastructure.

(continues)

Table 5.1

(continuation)

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital		
Issue	Rationale	Recommendations
6. Tax policy	Tax policy affects productive private sector investment. Good tax policy does not give preference to one productive sector over another, but can differentiate geographically.	Apply central government tax instruments – income, value-added, tariffs, etc. – uniformly to all productive sectors. Give local governments taxing and spending authority, effectively allowing tax regimes to vary from one region to another.
7. Tax burden	Current tax levels, including retentions by businesses for employees, constitute a serious disincentive to investment, especially in labor-intensive economic activities.	Review the current incidence and composition of taxes with a view to restructuring and simplification, aiming to maintain current tax revenues while lessening the bias against labor-intensive activities. This would reduce incentives to economize on labor and encourage informal enterprises to formalize, effectively broadening the tax base and allowing decreases in currently high tax rates.
8. Means for favoring labor-intensive activities	Using tax policy to favor labor-intensive over capital-intensive activities generally provides only artificial advantages. In a market economy, it is better to invest directly in lowering transaction costs, resulting in activities that are competitive at market prices.	Favor labor-intensive activities, e.g., tourism, agribusiness, manufacturing, construction, etc., but only with appropriate means. For example, reduce transaction costs through “hard” investments in supporting public infrastructure, especially roads, and “soft” investments like publicly financed but privately run business promotion centers in economic corridors.

(continues)

(continuation)

Table 5.1

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Physical Capital		
Issue	Rationale	Recommendations
9. Size of enterprises requiring support	Small and medium firms generate much greater employment than micro firm; also, growth of the latter depends on the growth of the former, which in turn is often tied to linkages with large firms.	Promote linkages between small and medium enterprises and large firms, especially export enterprises; there is a serious confidence gap between them. Subcontracting can bring them together through such measures as promotion of outsourcing via business promotion centers.
10. Key legislation	The vagueness of current laws governing basic production factors is a serious impediment to private investment, especially in rural areas.	Make legislation governing water, land, and forest resources more conducive to productive private sector investment.
11. Role of government	Government should minimize its direct participation in the economy to the extent possible, focusing instead on fomenting and regulating private activity.	Exercise fiscal constraint. Reaccelerate privatizations and concessions. Expand markedly the use of competitive performance contracts in the provision of public services.
12. Macro-economic stability	Stability of the overall economic policy framework is essential to increase private investment.	Resist the temptation to change the rules of the game of the economy in reaction to the <i>cóyuntura</i> . Stay the course.
13. Finance	Banking is a business for the private sector.	Leave banking to the private sector, resisting the temptation to create special-purpose banks. Focus on the underlying problem of lack of competitiveness by lowering private sector transaction costs. Strengthen the legal framework to encourage equity investment.

Table 5.2

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Human Capital		
Issue	Rationale	Recommendations
1. Geographic priorities	Although every Peruvian has the right to basic education, there may not be enough resources to attend adequately to all. Realistically, it may be necessary to set priorities.	If necessary, give preference to areas of extreme poverty, making basic education in the Sierra and Selva, and of girls, the highest priority.
2. Community involvement	Children get the most from their education when the community has a say about it.	Develop mechanisms to give communities more decision making authority for basic education. Look to CLAS (local health administration committees) for possible lessons for the education sector.
3. Functional priorities	In the 1990s, the government greatly expanded educational infrastructure. It is time to prioritize educational quality, which depends only in part on infrastructure.	Expand the pilot program of mobile teams training teachers on site. Pay incentive bonuses to high-performing teachers in rural areas of the Sierra and Selva.
4. Basic vs university education	The social return to education is highest in primary school. At the other end of the spectrum, state universities have proliferated throughout the country, each with multiple schools, the majority of them sub-standard.	Cut back on public financing of state universities, directing the savings to basic education. Apply the principle of specialization to public financing of university education, reducing the number of schools within each university, but boosting the quality in those that remain. In short, emphasize quality over quantity.

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Table 5.2

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Productive Investment in Human Capital		
Issue	Rationale	Recommendations
5. Vouchers	School vouchers can increase the effective demand of the poor for basic education. As a rule, monetized vouchers are more cost-effective than vouchers in kind, e.g., food.	Develop a monetized school voucher program in areas of extreme poverty. Implement it under the aegis of the Ministry of Education via competitive performance contracts with private organizations. If it is not possible politically to eliminate school feeding programs, assign them to a single institution, the Ministry of Education.
6. Technical and vocational education	The more technical and vocational knowledge a poor person has, the greater his or her likelihood of finding employment.	Expand training programs such as PROJOVEN that pre-identify employers committed to hiring graduates, targeting programs to poor people in high-potential economic corridors, and contracting operation to the private sector. Build on successful programs of private advanced technical training institutions like TECSUP.
7. Demand- vs supply-side approach	To expand access of poor people to levels of education beyond basic education, it is more cost-effective to subsidize demanders than suppliers.	Instead of financing post-secondary training institutions like SENATI (suppliers), provide poor students (demanders) training vouchers so they can access scholarships or loans to finance quality advanced education.

Table 5.3

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Social Spending and Policy		
Issue	Rationale	Recommendations
1. Public and private sector roles	The public sector's proper role is in establishing a policy framework for social programs. Implementation should be left to the private sector, which has shown greater efficiency.	Limit government involvement to the regulation and financing of social programs, allowing the private sector to implement them under competitive performance contracts. The underlying philosophy is for government to manage for results, focusing on monitoring and evaluation of performance.
2. Matching programs to target population	To reduce malnutrition in children from 0 to 3 years of age, choose those programs that have demonstrated the greatest effectiveness.	<p>Prioritize the most effective programs, including:</p> <ul style="list-style-type: none"> (1) integrated programs based in health sector establishments, e.g., PANFAR and PACFO; (2) community-based integrated programs, e.g., WINAY and NINOS; and (3) potable water and sanitation programs targeted to needy communities. <p>Programs less effective in reducing malnutrition among the target population include <i>comedores populares</i>, Vaso de Leche, school feeding programs, and Wawa-Wasis. It is recommended:</p> <ul style="list-style-type: none"> (1) the government stop subsidizing <i>comedores populares</i>, allowing those that are economically viable to operate as independent enterprises; (2) possible uses of Vaso de Leche resources be expanded to allow local governments to use them for the productive and social infrastructure of their choice; alternatively, encourage local governments to limit activities to nutritional interventions targeting vulnerable children under three; (3) school feeding programs not be justified on nutritional grounds, but rather by their educational impact; (4) the Wawa-Wasis be justified on educational grounds, including early stimulation, not by nutritional impact on poor children.

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Table 5.3

Illustrative Examples of Policy and Program Action Recommendations for Attacking Poverty: Social Spending and Policy		
Issue	Rationale	Recommendations
3. Geographic priorities	Every Peruvian has a right to primary health and nutrition services, but resources may be insufficient to meet all needs. Priorities must be set.	If necessary, give preference to areas of extreme poverty, favoring rural areas over urban areas and the Sierra and Selva over the coast.
4. Focus of food programs	The need for social stabilization has been used to justify a proliferation of food assistance programs. That justification is no longer valid.	Limit food distribution to emergency situations and to those programs whose objective is to improve the nutrition of children from 0 to 3 years of age.
5. Food and malnutrition	Malnutrition is not only a disease, and food is not a cure. To reduce malnutrition, one has to take many other factors into account.	When necessary, use food to attract needy households to essential services. Limit such instances of food distribution to potable water, sanitation, and health and nutrition education programs directed specifically to the target population.
6. Food and productive projects	In programs whose objective is to generate income and employment, food is a distraction.	Limit the purview of agencies specialized in social programs to such programs, allowing others with more appropriate specializations to promote economic activities. For example, among PRONAA's functions, exclude local purchases of food and the creation of microenterprises.
7. Specialization and integration	Specialization and integration are positive attributes. Duplication and dispersion are negative attributes.	Eliminate overlap among the various public agencies charged with managing nutrition programs, school feeding, microenterprise promotion, etc. Assign each function to one agency. To promote specialization and integration and avoid duplication and dispersion, create a Ministry of Social Investment. Such a ministry would absorb all public entities responsible for social programs. Short of creating a new ministry, transfer the majority of health and nutrition programs to the Ministry of Health.

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attacking poverty

a market approach

With over half of its people poor and almost a quarter now extremely poor, poverty undoubtedly is one of Peru's most pressing problems.

Indeed, attacking it successfully may be the country's most momentous challenge. The inability of the country to create quality jobs in the last few years has brought vast segments of Peruvian society to the brink of desperation. The perception is widespread: something – perhaps even something radically different – has to be done.

This document does not have all the answers to Peru's poverty problem. It presents neither a blueprint nor a detailed action agenda. It does, however, lay out a framework for thinking through appropriate responses. It starts from the premise that government cannot do it all, that ultimately market forces must get the job done. From this premise, it traces out a number of strategic directions for public policy, precisely to harness the power of the market to make a dent in the country's poverty problem. In the process, the document challenges much conventional wisdom. It asks the reader to rethink calmly what works, and what does not. The proposed strategy makes no claim to work miracles over night. Rather, it argues that the strategic directions proposed, if adhered to over time, can have measurable, sustainable impact. The authors ask the reader to reflect on the propositions laid out here and, if they make sense, to act accordingly.