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ADDRESSING TRANSITORY AND CHRONIC POVERTY: SOCIAL POLICIES IN PERU 1990–2010

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INTRODUCTION

In recent decades Latin American governments, whether enjoying rapid growth or suffering weak macroeconomic performance, have accompanied their more narrowly economic programmes with 'social policies' mainly designed to deal with poverty. Peru implemented a number of such policies in the early 1990s under a crisis scenario and has continued to apply them or variants of them during the more recent period of high growth. This study reviews selected social policies and programmes in the context of Peruvian economic development, stressing the role played by the broadly defined social policies implemented mainly since 1990.

Peru has historically been one of Latin America's lower-middle-income countries, whose main links to the international economy have traditionally been via mineral or other natural resource exports. Both its relatively low income and dependency on mineral exports have contributed to a high share of the labour force (given per capita income) being occupied in informal activities and in services.[1] Various disincentives to agriculture (including the focus on mineral exports) promoted an earlier than normal process of urbanization. The volatility of mineral exports ensured that the domestic economy would also suffer from severe fluctuations. These in turn have contributed to wide swings in the political sphere and in economic policy, including a number of major swings in policy orientation over the last half-century, moving from more or less populist to more or less conventional (Dornbusch and Edwards, 1991). Although the country has had the benefit of a number of excellent economists and technocrats, institutional quality overall has tended to be weak until fairly recently (Thorp, 1991). Left-of-centre policies, such as the worker management system, never had the potential to involve more than a quarter of the population, since the great majority were employed in small agriculture or the urban informal sector (Webb, 1975). This complicated scenario has provided the backdrop for the evolution of economic and social policy in Peru. Until the 1980s, social policy was traditional and managed and funded by the state, with the resulting subsidies tending to reach only those who were well informed and organized. By 1990 the operative definition of social policy had been narrowed to focus on specific goals and on strategies for specific poor populations.

Social policy and social protection in public policy[2]

Social policies in general and social protection polices more specifically reflect each government's preferences for how to deal with societal needs in areas such as health and education and to respond to the specific needs of poor people; usually they are not connected closely, if at all, to the economic policies implemented. In some cases, government is the sole provider and manager of the social policies; at the other extreme, market mechanisms may be used with government regulation; intermediate policies involve both public and private organizations.

Designing programmes and tools to effectively reach low-income populations is a challenge. In Peru in 1990 the programmes making up the social safety net suffered from many problems, including weak administrative organization, with correspondingly low cost-effectiveness and generally unimpressive results. There was a leaning toward social instruments that were self-targeting (e.g. public works hiring at below-market wages, consumption subsidies for specific poor groups such as single mothers). Monitoring and evaluation of the social safety net programmes was practically non-existent, in part because of a lack of appropriate data to undertake such analysis. Most inferences were based on extrapolation from programme targets, conditionality indicators and monitoring standards for benchmark and performance references, as the International Monetary Fund (IMF) points out (2000: 19–20).

The Peruvian experience until the late 1980s

Peru's economy has historically been primarily export-oriented, with the accompanying vulnerability and volatility, and with a small share of total employment located in these activities. Mining and other primary products were mainly produced by foreign firms isolated from the rest of the economy. In the 1960s Peru was a geographically disconnected and highly unequal society, with most of its population working in low-productivity activities—subsistence agriculture and the urban informal sector.

Velasco's 1968–1975 military government responded with an industrialization strategy, economic reforms and a push toward cooperatives and state ownership. Although this experiment coincided initially with fast growth (6 percent) and falling unemployment as a drawing down of foreign exchange reserves raised capacity utilization, when that exchange ran out, inflation exploded to 100 percent, the external debt increased dramatically, and the experiment showed itself to be unsustainable. By the late 1970s another military government (Morales) confronted a high external debt, declining exports, increasing food and input imports and low foreign investment, with resulting internal economic crisis.

Under the elected government of President Belaunde (1980–1985) the economy also suffered natural shocks, and the terrorist groups that subsequently devastated Peru socially and economically got their start. Short-term fiscal discipline was applied, followed by slow gross domestic product (GDP) recovery and little growth of formal-sector employment. In 1985–1987 President Garcia's first term once again instituted a major policy shift—raising the protection of national industry, imposing controls on foreign trade, introducing multiple exchange and interest rates and price controls, and establishing a foreign debt payment ceiling. Wage increases outran internal production as local industry grew slowly, with resulting inflation and devaluation, along with slow GDP growth and increasing foreign debt. By mid-1987 two main interventions, bank nationalization and curtailment of external debt servicing, brought political and economic retaliation from abroad.

By late 1989 the Peruvian economy was suffering a deep recession (GDP shrinking by 9 percent), fiscal and external deficits, worsening external isolation and hyperinflation (more than 5000 percent per year). Terrorism and drug trafficking added their negative effects to the mix. Poverty and extreme poverty grew, inequality increased (Saavedra and Diaz, 1999: 30), and provision of public services (education and health) worsened. Labour was challenged by this scenario, which led to increased internal migration to urban and jungle areas, emigration of middle-class workers and growing informality. The increase of urban poverty accelerated; according to Escobal, Saavedra and Torero (1998: 7) the urban poverty rate changed from 39 percent in the 1970s to 36 percent in 1985 and 53 percent in 1991.

Among the 1960s programmes with at least some presumed 'social' impact were large public investments (roads in the jungle and the Andes) financed in part through international cooperation (e.g. USAID, Peace Corps, USA Alliance for Progress), as well as monetary and in-kind transfers for poor people. Most public investment went to urban areas, where most Peruvians (including the workers already there and political and social movements, including new political parties) expected the country's modernization to occur, and where unionization was strong. As part of its policy of full coverage of all so-called 'basic needs' (including all types of health, education and housing services), the 1970s military government provided public goods such as schools and large hospitals as part of its medium- and long-term plans in those areas, as well as infrastructural spending on major roads. Its other main social policy instruments included a high minimum wage, support for unionization, profit-sharing with employees by private firms, rising public-sector employment, public expenditure on housing, and social security provided through formal-sector firms. Poverty and equality objectives were to be pursued not primarily through transfers but by changing property rights towards collective ownership in both urban and rural areas.

With the crisis of the late 1980s, when GDP fell by an accumulated 24 percent (1988–1990), most of these programmes fell victim to a lack of funding. Urbanization accelerated over 1985–1990, but waged employment fell as a proportion of the total, the real wage decreased, poverty increased, especially in rural areas and smaller cities, and social tensions increased. The critical economic and social scenario of 1987–1990 not only forced an end to 'populist' macroeconomic policies but also led to a reduction in social spending, which changed from 3.1 percent of GDP in 1980 to 2.5 percent in 1985, 3.7 percent in 1987 and 2.9 percent in 1991 (Vasquez et al., 1999: 642). Also, price controls on goods and subsidies for public utilities were weakened. Among the modest-sized social programmes were: Presa (Programa de seguridad alimentaria) for the poorest peasants, to assure markets and income for their production; Programa de asistencia directa for young people; Comedores populares, Glass of Milk (Vaso de leche) and other local programmes; and Programa de apoyo al ingreso temporal, mainly for urban young people (Parodi, 2000: 230–238).

1990–2010: structural reforms, poverty and employment

Beginning in 1990, the Peruvian economy shifted from its previous path to a very different one. Structural adjustment policies were implemented, and, though subsequently reformulated, they have not been abandoned since then (see Annex 3.1). Among these policy shifts was a major reform to eliminate or reduce the labour regulations seen as impediments to a freely competitive labour market.[3]

Broadly speaking, the anticipated macroeconomic outcomes have been attained, with the economic upturn followed by solid average growth of 5.3 percent (from 1992, the first year of significant growth, to 2010),[4] despite marked growth fluctuations; per capita gross national income (GNI) grew by an average of 3.6 percent per year. Other challenges have been met less successfully during this period. Poverty rates, though increasing as per capita GNI stagnated over 1997–2001, did fall sharply over the last decade to reach the lowest levels on record, with the improvements proportionately much stronger in urban areas and an increasing relative gap between rural and urban poverty. Modern waged employment increased little, while the informal sector remained very large, with a high share of workers operating in low-productivity urban microenterprises (Rodriguez and Higa, 2010). By 2008, labour in microenterprises counted for around 50 percent of total workers in the country, according to Rodriguez and Higa (2010: 6). This pattern has called into question some of the expectations and predictions of the supporters of the cited labour market reform.

As detailed in the following sections, the approach to social policy changed markedly in the early 1990s, after which the norm has been minor reformulations mainly directed at management/implementation issues. Before identifying the key challenges faced by the social policies of these two decades, it is important to highlight some features of the Peruvian society and economy during this period, some due to the structural features noted above and some to the country's level of development. They include:

- a relatively high level of urbanization, with 75.9 percent of the population residing in urban areas, according to the Population Census of 2007. Terrorism and other shocks help to explain the rapid migration of workers to larger urban areas, as do weak employment options in rural areas and smaller cities, based on low rates of investment and limited demand for labour by large firms in the important extractive sector;
- low open unemployment rates, although hidden unemployment appears to be significant;
- a low proportion of workers employed by large private firms; such firms, located mainly in urban areas, tend to hire males with considerable education and training (Rodriguez and Higa, 2010: 6);
- more than 50 percent of employed workers nationwide and around 50 percent in urban areas work in microenterprises, either self-employed or running firms of up to four workers;
- after the 1989 hyperinflation and the reforms of the 1990s and later, a low and stable level of real wages (Diaz, 2009) and of the legal minimum wage, which was set with a view to keeping labour costs low and making firms competitive;
- high poverty rates, especially in rural areas and marginal urban areas;
- a high level of inequality, with deep historical roots and associated with a very unequal distribution of wealth; inequality is higher in urban than in rural areas; and
- prior to 1990, a relatively costly (to the employing firms) body of labour legislation (Riveros, 1989).

In this context, one policy that deserves special attention is the labour reform which began in 1991. Its main goal was to increase firms' flexibility, consistent with the new neoliberal economic perspective of economic policy at the time. It allowed formal firms to undertake temporary hiring, reduced the restrictions on firing, allowed subcontracting of third parties to perform tasks that were not the firm's main activity, and lowered the obligations for non-wage benefits. One main component was reform of the formal sector's employment-related pension system, in part because of its *de facto* bankruptcy, the result of previous governments using its accumulated funds to cover their fiscal deficits. Under the reform, two systems were created, one private and mostly bank-owned (AFPs) and another managed by the public sector (ONP), with both based on worker contributions. Another labour-related policy was the reduction of public-sector employment through incentives and dismissals, as a way of cutting fiscal expenditures.

By the 2000s these policies had contributed to fewer formal-sector workers as a proportion of total employment, as well as a fall in unionization and other forms of labour association. The combination of the drastic economic crash of 1988–1990 and these policy measures put severe pressure on employment and led to a sharp drop in labour incomes and a rapid growth of microenterprise.

While the precise impacts of the 1990s labour reform remain uncertain, it is clear that it did not lead to a large and quick reduction in the size of the informal sector by increasing the flexibility of formal-sector labour contracting. As noted by Chong et al. (2008), Peru not only maintained one of the highest levels of informality in the region but also experienced a consistent growth in the share of informal employment not only during the crisis of the late 1980s but also during part of the growth recovery period of the 1990s. These authors (ibid.: 244) attribute this outcome in part to changes in the orientation of the economy and technological changes related to the opening of the economy. Many older workers, more typically found in the formal sector, lost their jobs as a consequence of public-sector downsizing, privatization and the contraction of formerly protected manufacturing sectors and were unable to find new formal-sector jobs. The expectation of a significant increase in formal-sector employment as a consequence of the reform seems in any case to have been unrealistic in light of the relatively narrow range of employment on the margins of formality and susceptible to being formalized by such legislative changes.

In the context of a recently proposed law designed to encourage the formalization of micro- and small enterprises, Rodriguez and Higa (2010: 18–19) note that 70 percent of all informal enterprises have only one person, and of those with more, only a quarter contract labour, from which they conclude that at most 6 percent might be candidates to formalize under such a law.[5] While the labour reform did not produce the benefits hoped for by some, it remains unclear whether it is responsible for some of the disappointing labour market outcomes in Peru. While informality did rise until about 2000, it has since then fallen somewhat and appears more or less in line with that of other Latin American countries, when per capita income is taken into account (Morales et al., 2010: 59). It is thus not impossible that the reforms have given a small and delayed impulse to formality. Income inequality may have fallen over the past decade as well. A best guess, though, is that the reforms did not have major impacts on either of these trends. Meanwhile, growth has been solid, not spectacular by international standards—with no 10-year average exceeding 5.5 percent—but far better than the historical norm for Peru.

SOCIAL POLICY SINCE 1990: A NEW AGENDA AND ISSUES IN RECENT DECADES

In Peru the package of policies targeting poor and extremely poor people has changed considerably in the last two decades or so, with important shifts in approach, programmes, targets, tools and evaluation. As elsewhere, the generally accepted meaning of the term ‘social policy’ has itself evolved, reflecting shifting views on the role of government in providing basic public goods for poor people. The specific basket of public goods to be provided and the specific social policy instruments and their related goals, resources, tools and target population have all been linked to the (political) approach adopted by each government to deal with poverty, satisfying basic needs, and inequality.

Before 1990, Peruvian governments emphasized education, health and infrastructure as part of their broad responsibilities, along with macroeconomic management; a distinct set of ‘social’ policies was designed to deliver food and basic consumption goods to poor people in urban and rural areas. Until the 1980s, social policy was seen mainly as a universal tool to deal with emergencies and poor people’s urgent needs, while education, health and infrastructure were conceived as public goods contributing to long-term economic growth. By 1990, along with the macroeconomic reforms implemented to face the economic crisis and hyperinflation, a new social policy approach was being developed, with narrower priorities, targets, programmes and tools.

The main immediate objective was to deal with the unavoidable short-term negative effects of the crisis itself and the macroeconomic adjustment policies designed in response to it, especially the effects on poor people through the drastic reduction of their incomes and consumption and employment options. Thus the social policy package was designed to target, within the broader poor population, the victims of these negative shocks, by smoothing the (hopefully) short-term negative effects in the expectation of positive medium- and long-term benefits from economic recovery and growth. During 2000–2010 this new social policy orientation was maintained with minor reformulations.

Although the capacity of this social policy package to generate employment for poor people has usually been assumed to be positive, there are no mechanisms that guarantee a significantly positive impact. The policies generally provide basic consumption goods and temporary income transfers, and it depends on the nature of each programme whether it has production and/or employment effects. (It is more commonly assumed that policies towards microenterprises and microfinance, especially when managed not under a social welfare but a developmental perspective, will have such benefits.) Social policies are also affected by the political preferences of each government, which may or may not include employment as a main priority.

By mid-2000 more than 80 social programmes were operated by different public-sector offices, from the central government (through its various ministries) to regional and local governments. The inter-ministerial commission (ST-CIAS) was tasked with overseeing and merging the social programmes to improve their management and resource effectiveness. Several empirical studies have identified targeting problems (i.e. leakages and under-coverage) as well as corruption. After transforming and merging some old programmes, creating some new ones and streamlining management, as of late 2010 there were 26 social programmes run by the public sector.

Social policies in the 1990s — an overview

Since the early 1990s the public authorities have been active in designing and implementing social programmes in response both to the reality of widespread poverty during the economic crisis but also to various other indicators of social discomfort. The terrorism experience of the 1980s highlighted the dangers of such social and political discomfort. In the 1990s the new social policy approach redefined its components to include public goods such as education and health. Moreover, instead of emphasizing universal coverage, it focused on transferring basic goods and services to specific target groups of the poor population (see Annex 3.2).

Between 1990 and 1993, the new social policy approach was implemented under the management, public resource funding and supervision of just one authority, the Presidency of Ministers' Council (PCM). The main idea was to involve all ministries in diagnosing and designing specific social programmes, while the PCM assumed overall responsibility for them; one notable step was the creation of the Cooperative Fund for Social Development (Fondo de cooperacion para el desarrollo social—Foncodes). In 1993–1995, guided by the Targeting Programme for Basic Social Expenditure, authority was decentralized from the PCM to various ministries, with the expectation of facilitating the planned increase in publicly funded social expenses and contributing to the development of organizational and management capabilities to improve implementation of new programmes.

During 1995–2000, inspired by the agreements of the World Summit for Social Development (Copenhagen), President Fujimori redefined the social policy challenge as reducing extreme poverty from 20 to 10 percent by 2000, reassessing the effectiveness of basic social expenditure and achieving better targeting to reach the population unable to buy an adequate amount of food. An emphasis on women was highlighted by the creation of a special ministry, the Ministerio de promocion de la mujer y desarrollo humano. Key statistical tools (national surveys about life conditions, a national population census including data on height and weight) were developed and used to map the population in extreme poverty across more than 400 districts and to better focus the increasing social expenditure.

Parodi (2000: 175–182) notes that during the 1990s social expenditures remained low as a share of total public spending and decreased on a per capita basis and as a share of GDP such that during the crisis of the early to mid-1990s the social expenditure could not compensate for the income losses of most of the population. Growth of enrolment in public schools was slow, allocation of the limited resources to public education was inefficient (favouring higher levels of education and urban areas), and the continuing low real wages of public school teachers and the poor physical infrastructure of schools contributed to a low quality of education and a still significant official adult illiteracy rate of 10 percent in 2007 (World Bank databank), with functional illiteracy somewhat higher. The public system provided most of the health services on a budget of 1 percent of GDP, and there was a heavy geographic concentration of expenses in Lima; meanwhile, private health systems ran one third of Peruvian hospitals, mainly for the benefit of a relatively rich group making up only 2 percent of the population.

Other economic and institutional policy changes included the above-mentioned labour reforms implemented during 1990–1995; the one-time monetary incentives for public employees to enter voluntary retirement; the reform of the Peruvian social (public) insurance system to unify health service provision to its affiliated (mostly formal-sector) workers and to authorize private firms to operate Health Provider Enterprises (EPSs) supplying private hospital health services to workers (and their relatives) willing to pay for better health plans at market prices; creation of a private pension system (AFP) parallel to the existing public system (ONP), with individual workers free to choose either during the transition period, and with low but increasing acceptance of the private system, which as of 1999 consisted of five firms; and creation of the compensation for work service (CTS) as a system of forced savings by workers, deposited in a financial institution and available for withdrawal during later bouts of unemployment (hence a personalized form of unemployment insurance). These various changes may have influenced the outcomes, although a lack of evaluation leaves it unclear how much.

Redefining social policy during the 2000s

Paniagua's short transitional government of 2000–2001 promoted institutionalized participation of civil society in designing and monitoring social policies and took the first steps to merge the multiple and isolated social programmes run by non-linked public offices. Social policy faced new challenges and experienced further changes in the decade to follow.

Over 2001–2010, the two Presidents (Toledo and Garcia), though having different political leanings, pursued broadly similar social policies. Under Toledo (2001–2006), most of the previous social programmes were preserved, albeit with some changes. As of 2001, poverty and extreme poverty were still quite high[6]—probably equal to their level of several decades earlier—economic growth had not been enough to bring per capita income above the level of the mid-1980s, and evidence suggested that the resources allocated to social programmes during the 1990s had mainly benefited urban and middle-income families. The large number of programmes and public institutions involved made reform difficult and slow. The main steps included: a merging of social programmes; restructuring of one ministry (now Ministerio de la mujer y derechos humanos) to take overall command of public-sector social policy, under the budgetary control of the Ministry of Finance; institutional innovations including the creation of a national roundtable (Mesa de concertacion en lucha contra la pobreza) as a mechanism to engage civil society in designing social policy and a national agreement (Acuerdo nacional) proposed by the President and supported by civil society representatives that included the reformulation of social policy, a decentralization process and local councils with plans and monitoring mechanisms to keep track of the social programmes implemented. Those programmes had children and youth as top priority groups, and investment in human capital as a key priority (for details, see Annex 3.3). Near the end of the period, a conditional cash transfer (CCT) programme (*Juntos*) was implemented, focusing on a few districts in the poorest regions of Peru.

Garcia's 2006–2010 government kept some social programmes essentially unchanged while giving others a more market orientation, in particular those in education and health (see Annex 3.2). Political and social pressures helped protect some emblematic food and nutrition programmes (e.g. Glass of Milk). Some long-term programmes (e.g. Parsalud and Huascaran) were retained with diminished budgets and goals, while coverage of the *Juntos* programme (described below) was extended into most of the poorest districts of the country. Among new programmes, Crecer was the most important. The urgency of reforming the existing social programmes to more clearly define their goals and objectives, to merge them and to identify one public institution responsible for overall social policy from coordination to monitoring and evaluation was widely noted (Vasquez, 2006: 14). In 2007 a social policy reform decree was issued to provide a framework for modernizing management of the programmes (Apoyo, 2009: 24). Some young policy makers and advisers directed their efforts to the monitoring and impact evaluation of social policy, designing new methodologies. Despite government efforts to move away from the mostly 'welfare' orientation of the 1990s, Peru's social policy generally retained this perspective, although it now incorporated more market-oriented programmes. The overall effects of recent social policy remain to be assessed.

Resources and managerial issues

Total social expenditure increased continuously over the decade, more than doubling for an average growth rate of over 7 percent per year (Table 3.1); its share of overall government expenditure, after dropping sharply from 54 to 47 percent between 1999 and 2001 during the economic and political crisis, has since then fluctuated between 46 and 50 percent, ending the decade at 46 percent in 2010, 8 percentage points below its 1999 level.

Around 30 percent of total social expenditure was on administrative costs, with just 70 percent channelled to current and capital expenditures. The administrative share was larger during the Toledo administration (above 35 percent), before falling back to around 26 percent in 2009–2010. Whether either the striking increase in the share of administrative costs over 1999–2001 or the significant decline after 2005 reflect the changes of government at those times is a matter of interest. Around 40 percent (reaching 44 percent in 2010) of total social spending excluding administrative costs went to basic services (pre-school and elementary education, basic health, basic food and nutrition, water and sanitation), while over 50 percent (and over 60 percent until 2005) went to 'non-basic' goods and services including secondary and high school education, colleges, infrastructure, electricity, roads etc. Given its rapid increase in absolute terms, social expenditure has also grown sharply per capita, by nearly 6 percent per year and about 83 percent over the decade.

This decade saw general government expenditure rise significantly from 15.6 percent of GDP in 1999 to 19.8 percent in 2010 (Table 3.2), while the share of GDP going to social expenditures stayed around 9 percent, with only a marginal net increase over the decade. There was a marked increase in 2009 (from 8.75 percent of GDP the year before to 10 percent), as these expenditures rose sharply and GDP was virtually stagnant (due to the impact of the global financial and economic crisis). Social expenditure was scaled up despite the economic difficulties, and perhaps partly as a response to them.[7]

A major shift in the composition of social spending saw the rise of health and sanitation from 26.6 to 45.7 percent of the total, reflecting the innovations described in Section 3 below. Between 1999 and 2005 more than 50 percent of direct social spending went to physical infrastructure and equipment projects for initial and elementary education, followed by basic health projects (around 30 percent), while just around 15 percent were for basic social protection and prevision[8] (Table 3.3). After 2005 this pattern changed drastically, as the shares for basic (initial and elementary) education and basic social protection programmes were reduced to 40 percent and 14 percent, respectively, by 2010, in favour of a large increase in resources for basic health programmes (to 45 percent by 2010). The supplementary goods and services also had education and health as their main social programmes (both with more than 50 percent of the

Table 3.1: Government, Social and Basic Social Expenditure,[1] 1999–2010

Type of Expenditure	1999	2000	2001	2002	2003	2004
A. General Government Expenditures[2] (Millions of PEN, 2009)	35,183	39,611	46,249	47,284	51,189	54,286
(B/A)*100%	54.3	50.4	46.8	49.5	47.0	48.2
B. Total Social Expenditure, (Millions of PEN, 2009)	19,104	19,962	21,618	23,389	24,046	26,162
1. Non previsional social expenditures[3]	71.2	68.3	63.5	63.4	62.9	62.9
1.1 Basic social expenditures[4]	(38.8)	(43.7)	(41.4)	(37.8)	(38.2)	(39.3)
1.2 Supplementary social expenditures[5]	(61.2)	(56.3)	(58.6)	(62.2)	(61.8)	(60.7)
2. Previsional expenditures[6]	28.8	31.7	36.5	36.6	37.1	37.1
C. General Government Expenditure per capita (Thousands of PEN, 2009)	1.400	1.553	1.787	1.802	1.924	2.014
D. Total Social Expenditure per capita (Thousands of PEN, 2009)	0.760	0.783	0.837	0.891	0.904	0.970
E. Basic Social Expenditure per capita (Thousands of PEN, 2009)	0.210	0.234	0.220	0.214	0.217	0.240
Exchange Rate (PEN /US$1)	3.38	3.49	3.51	3.52	3.48	3.41

Type of Expenditure	2005	2006	2007	2008	2009	2010
A. General Government Expenditures[2] (Millions of PEN, 2009)	57,457	61,307	64,089	71,768	79,382	86,695
(B/A)*100%	49.1	48.7	50.2	46.6	48.1	46.3
B. Total Social Expenditure, (Millions of PEN, 2009)	28,240	29,845	32,181	33,425	38,217	40,143
1. Non previsional social expenditures[3]	62.7	65.1	68.0	71.5	74.5	74.0
1.1 Basic social expenditures[4]	(39.2)	(40.6)	(42.6)	(45.5)	(43.0)	(44.3)
1.2 Supplementary social expenditures[5]	(60.8)	(59.4)	(57.4)	(54.5)	(57.0)	(55.7)
2. Previsional expenditures[6]	37.3	34.9	32.0	28.5	25.5	26.0
C. General Government Expenditure per capita (Thousands of PEN, 2009)	2.104	2.218	2.292	2.538	2.777	3.000
D. Total Social Expenditure per capita (Thousands of PEN, 2009)	1.034	1.080	1.151	1.182	1.337	1.389
E. Basic Social Expenditure per capita (Thousands of PEN, 2009)	0.254	0.285	0.334	0.385	0.428	0.455
Exchange Rate (PEN /US$1)	3.30	3.27	3.13	2.92	3.01	2.83

Source: *author's elaboration with data from MEF—Estadísticas de Gasto Social (1999–2010)*

Notes: 1 MEF-DGAES taxonomy of the social expenditure; 2 Includes all national, regional and local, capital and current expenditures; 3 Includes capital and current expenditures; 4 Defined, according to the Oslo Consensus, as: basic education (pre-school and elementary), basic health, food and nutrition, and water and sanitation; 5 Includes activities and social projects not included as part of the basic social expenditure (e.g. secondary and high school education, colleges, social and productive infrastructure, rural electricity, rural roads etc.); 6 Includes capital and current expenditures associated with the work of the social programmes.

Table 3.2: Total Government Expenditure and Social Expenditure,[1] 1999–2010 (current prices)

	1999	2000	2001	2002	2003	2004
A. General Government[2]	27,254	31,837	37,906	38,829	42,986	47,256
(B/A)*100%	54.3	50.4	46.8	49.5	47.0	48.2
B. Total Social Expenditure	14,798	16,044	17,751	19,207	20,192	22,774
C. GDP (current LCU) in million PEN[3]	174,422	186,141	189,213	199,650	213,425	237,902
A/C (%)[4]	15.63	17.10	20.03	19.45	20.14	19.86
B/C (%)[5]	8.48	8.62	9.38	9.62	9.46	9.57

	2005	2006	2007	2008	2009	2010
A. General Government[2]	50,826	55,316	58,855	69,722	79,382	88,021
(B/A)*100%	49.1	48.7	50.2	46.6	48.1	46.3
B. Total Social Expenditure	24,980	26,928	29,553	32,471	38,217	40,757
C. GDP (current LCU) in million PEN[3]	261,653	302,255	335,529	371,073	382,318	444,460
A/C (%)[4]	19.42	18.30	17.54	18.79	20.76	19.80
B/C (%)[5]	9.55	8.91	8.81	8.75	10.00	9.17

Source: *author's elaboration with data from MEF—Estadísticas de Gasto Social (1999–2010)*

Notes: 1 MEF-DGAES taxonomy of the social expenditure; 2 Includes all national, regional and local expenditures (Millions of Nuevos Soles (PEN) and percent); 3 World Bank data; 4 Author's calculations; 5 Author's calculations.

Table 3.3: Basic Social Expenditures by Type of Expenditure, 1999–2010 (PEN millions, 2009 = 100.0 and percentage shares)

Type of Expenditure	1999	2000	2001	2002	2003	2004
Education & Culture	59.4	51.1	48.8	55.2	56.9	53.2
Social Protection & Prevision	14.0	17.5	13.6	12.2	14.5	16.9
Health & Sanitation	26.6	31.4	37.6	32.6	28.6	29.9
TOTAL	5,281	5,961	5,698	5,611	5,770	6,461

Type of Expenditure	2005	2006	2007	2008	2009	2010
Education & Culture	53.2	49.5	45.9	47.8	43.2	40.5
Social Protection & Prevision	14.6	13.0	16.6	7.4	13.3	13.8
Health & Sanitation	32.2	37.6	37.5	44.8	43.5	45.7
TOTAL	6,932	7,885	9,333	10,872	12,235	13,152

Source: *author's elaboration with data from MEF—Estadísticas de Gasto Social (1999–2010)*

Notes: Includes current expenditure

available budget), although these education programmes increased their share to 48 percent in 2005 and then fell to 43 percent by 2010, while these health programmes kept their share around 20 percent until 2005, then fell to 18 percent in 2010. The already low share for programmes for social protection and agriculture declined further, while expenditure for transportation and housing social programmes increased. These changes in social expenditure allocation patterns were associated with the different perceptions and priorities of the Toledo and Garcia governments, with the former assigning higher priority to education, and the latter to health programmes.[9]

Target populations for Peru's anti-poverty programmes and success in reaching them — some hypotheses

As discussed above, in the early 1990s the main goal was to mitigate the expected short-term effects of stabilization and the medium-term effects of growth-oriented macroeconomic policies on poor and extremely poor people. Later those objectives were broadened. Because of management and coordination problems in the social policy area, available data from the programmes themselves do not provide a reliable picture of who the beneficiary families are, but over the past decade the statistically representative household surveys from the National Survey of Households (ENAHO) do permit a reasonable description. Although an individual and/or family may participate (legally or not) in more than one social programme, for simplicity we consider here only the participation of the head of household in the social programme that he/she considers the most important, in the expectation that these figures will tell a broadly representative story.[10]

As of 2000, beneficiary families were concentrated in two programmes: School Breakfast (44 percent of all beneficiary families) and Glass of Milk (42 percent), with People's Dining Room also important (11 percent). Similar shares of the families were located in rural and in urban areas, and around 40 percent were non-poor. The heads of households were mostly men (70 percent), typically had elementary or high school education, and nearly all (90 percent) worked in an enterprise with 10 or fewer workers. Some notable changes occurred over the decade: by 2005 and 2009 Glass of Milk became the most important programme for around 50 percent of families, followed at a distance by School Breakfast (27 percent) and People's Dining Room. By 2005 the percentage of beneficiary families that were in rural areas had risen to 61 percent (from 53 percent in 2000); by 2009 this share had dropped to just under 52 percent. An additional key piece of information that remains to be reliably estimated is the share of all poor families that were beneficiaries of the social programmes. The persistent significant participation of non-poor in these programmes that target poor people may jeopardize their effectiveness (especially if those non-poor are far above the poverty line); participation of non-poor families decreased from 41 percent in 2000 to 26 percent in 2005 but then rose again to 40 percent in 2009. The share of female family heads rose from 26.3 percent in 2000 to over 32 percent in 2005 and 2009. Most of the heads of household had elementary to high school education (and more with higher levels in 2009) and continued working mostly in microenterprises (of two to 10 workers). A logit regression shows that over this decade the main determinants of a family's participation in a social programme are the number of dependents (positive), poverty status (positive) and urban residence (negative); other variables with an impact are gender of head of household (more likely if female) and age (more likely if younger—see Annex 3.4). More complete information and analysis of these social programmes is required; specifically how well they are targeted to nutritional status, height and weight and to certain age groups (e.g. infants, elderly people).

Table 3.4: Head of Household by Social Programme and Characteristics, 2000, 2005 and 2009 (percentage)

	2000		2005	2009
Social Programme				
Glass of Milk	41.8	Glass of Milk	51.1	45.5
Wawa Wasi	0.3	People's Dining Room	12.2	9.5
Children's Dining Room	0.2	School Breakfast	26.0	28.3
People's Dining Room	11.0	School Lunch		6.6
Food for Working	0.2	Baby Porridge	2.1	3.0
Family Basket	0.3	Family Basket	0.2	1.5
Food Supplement for at-risk people	0.6	Others	8.4	5.7
Tuberculosis Programme	0.0			
Infant Nutrition	0.2			
School Breakfast	44.4			
School Dining	1.2			
Total	**100.0**	**Total**	**100.0**	**100.0**
Location				
Rural	53.0	Rural	60.5	52.1
Urban	47.0	Urban	39.5	47.9
Total	100.0	Total	100.0	100.0
Gender				
Male	73.7	Male	67.8	67.4
Female	26.3	Female	32.2	32.6
Total	100.0	Total	100.0	100.0
Education Level				
No Level and Initial	14.2	No Level and Initial	14.1	11.4
Elementary	47.8	Elementary	56.3	47.6
Middle and High	31.7	Middle and High	24.4	31.6
Technical	1.9	Technical	2.9	5.7
University	4.5	University	2.3	3.7
Total	100.0	Total	100.0	100.0

Source: *author's elaboration, based on the ENAHO for 2000, 2005 and 2009.*

	2000		2005	2009
Firm Size				
1	22.1	1	17.2	17.9
2 to 10	66.2	2 to 10	73.4	67.2
11 to 50	5.1	11 to 50	2.6	5.4
More than 50	6.7	More than 50	6.8	9.5
Total	100.0	Total	100.0	100.0
Poverty Status				
Extremely poor	22.4	Extremely poor	36.4	26.2
Non-extremely poor	36.1	Non-extremely poor	37.5	33.7
Non-poor	41.5	Non-poor	26.1	40.1
Total	100.0	Total	100.0	100.0
Source: *author's elaboration, based on the ENAHO for 2000, 2005 and 2009.*				

Evaluation of social policies — main issues

During the 2000s, the social programmes mentioned above received resources and mandates to provide specific goods or services, with the programme staff usually defining their specific target group (e.g. women, children up to six years old, children up to 12 years old, extremely poor households, single mothers). Serious questions have been posed about the programmes' effectiveness—from design and resources allocated to implementation and evaluation.

Vasquez (2006) claims that, despite the continuous increase in social expenditure, these efforts did not significantly reduce poverty rates; he attributes this to leakage (where beneficiaries include people not in the target population) and under-coverage (where members of the targeted group do not receive benefits) in all of the social programmes.[11] Analysing four nutritional programmes, Monge et al. (2009) argue that the fall in poverty rates cannot be attributed to improvements in targeting, since leakage and under-coverage problems have persisted at high rates. An additional concern is the geographical allocation of the expenditures which, as Lavado (2007) suggests, sometimes favours non-poor regions and locations, even when ostensibly targeting poor people.

Issues of information, corruption and political clientelism have also generated problems of identification, principal agent and free riders. The multiplicity of social programmes and the lack of coordination among them have also contributed to difficulties in achieving the right outreach. As overall social policy was continuously redefined from the 1990s on, so too were the specific goals, the programmes, the definition of the poor and extremely poor groups, and the evaluation methods. According to Tanaka and Trivelli (2002: 30–31) failure to take adequate account of these changes led some observers to misleading conclusions in the 1990s, and contributed to misallocation of social policy resources.[12]

Failures in social policy implementation have been linked to too few trained staff, low human capital and scarce fiscal resources. There has been a generalized weakness in tasks such as adequately defining beneficiary graduation and exit, with resulting potential for social conflicts among previous and new or potential beneficiaries, and continuing or even rising leakage and under-coverage problems. Underlying more immediate problems such as imperfect targeting are important institutional deficiencies in management and administration associated with corruption and the biasing effects of a government's client groups.[13]

The decentralization implemented since 2000 did not have the expected results, partially because of planning problems but also because political decentralization has not been adequately linked to economic and human resource improvements in centres outside Lima, as the economic resources continue to be managed centrally. Peruvian authorities have recognized a number of these challenges and the related concerns of civil society, practitioners and policy makers (Contraloría, 2008). In the last few years a number of highly qualified professionals have become involved, helping to improve various aspects of social policy, from design to evaluation. One of the first innovations was the elaboration of the district-level National Poverty Map in 2003 as a tool for identifying priority locations for social policy interventions. Another was the creation of the targeting system Sistema de Focalización de Hogares (Sisfoh) in 2004, designed to improve the beneficiary selection process of social programmes and to deal with targeting issues (Moron, 2009). New methodologies to evaluate social programmes have also been promoted.

SELECTED SOCIAL POLICIES

Some social programmes aim to meet just one need and/or deliver one type of good or service, while others provide money or a range of goods and services. The programmes selected to illustrate each of these categories have been selected on the basis of three main criteria: budget size, number of beneficiaries, and potential employment effects.[14] They are:

- those providing just one good or service:
  - Food and nutrition social programmes—Glass of Milk;
  - Education—Literacy programme;
  - Health—Integrated Health System (*Sistema Integral de Salud*—SIS);
  - Infrastructure—*Provias*; and
  - Temporary work—Urban To-Work (A trabajar urbano—ATU) and Constructing Peru (Construyendo Peru);
- those providing more than one good or service, including cash transfers:
  - CCT—*Juntos*; and
  - Rural production support—Foncodes; and
- private social initiatives, including:
  - Productive projects for small producers—Fondoempleo; and
  - Development projects for extremely poor people in rural areas—Sembrando.

The Glass of Milk programme

Created in 1985 as one of the first food and nutrition programmes in Peru, Glass of Milk delivers one daily portion of food to women and children who are pre-identified as vulnerable to food insecurity. It targets children under six years of age, pregnant women, and women who are breastfeeding. The Controlaría (2011: 59–60) reports that in 2010 the programme's budget was PEN363 million (about US$128 million), with 2.38 million reported beneficiaries, of whom 68.3 percent were children aged six or under, lactating mothers and invalids; the others were older children, elderly people and people with tuberculosis.

From early on, this programme was designed to be run through civil society organizations (*organizaciones de base*—OBs), created by the Constitution under the Fujimori government of the early 1990s, with a clear gender orientation and mothers preparing and delivering the food. It is funded by the central government and international cooperation. First implemented in poor provincial municipalities around the country, it was soon also installed in Lima, under the argument that food security was a human right. That argument helped Fujimori to develop close political connections with the beneficiaries (Palma, 2008), generating large popular support for his government. Despite various reforms and in the midst of conflicts with poor non-benefited agents, the participation of OBs has continued up to the present. The involvement of local (district) authorities was first reduced (in the late 1990s) then increased again (2001).

The programme is currently under municipal responsibility, with two complementary implementing agencies: the local administrative committee (with representatives elected among the mothers of OBs) and the municipal committee, each with its own specific but separate and complementary functions in the areas of selecting beneficiaries, management and control of the financial resources issued by the Ministry of Finance and buying food (from selection and negotiation with suppliers to follow-up, supervision and evaluation). These managerial functions have been vulnerable to inefficiency and corruption. Suarez (2003) identified problems of a lack of oversight plaguing both agencies.

Given the criticisms of the programme and its high level of resources, it has been the subject of lively debate among policy makers and political leaders. Previous beneficiaries and the leaders among them persistently oppose graduating from the programme and paving the way for new participants, while protests by current beneficiaries prevent the government from making more than minor changes to its management and supervision.

Poor monitoring and ex post evaluation of the programme have also probably contributed to deficient outcomes. Portocarrero et al. (2010) note that the programme has relied heavily on the close ties between the mothers in charge and the government authorities, with the OB Coordinator having the greatest managerial control. Instead of opting for a true communal basis, the mothers in charge have preferred to handle cooking and delivery individually, charging the beneficiaries a (low) fee for these services. These monitoring deficiencies and managerial patterns may explain the programme's drift away from its original goal of serving only women and children suffering from food insecurity. Positive side effects, however, have been the high level of participation of poor women and the economic and political empowerment of at least the leaders among them, although most of them are not from the poorest quintiles, who tend to avoid such responsibilities because of lack of time or interest. This pattern helps to explain the stiff resistance of current leaders to the implementation of graduation mechanisms.

To what degree has this programme reached poor and extremely poor households? Various studies have pointed out that, despite the expansion of its coverage, inadequate targeting has been a main weakness. Vasquez (2006: 15–16), using data from the 2004 ENAHO, noted that in that year more than 1 million people benefited through leakage, most of them in Lima and Tacna, regions with low rates of malnutrition, while an estimated nearly 4 million members of the target group were not reached. He attributed under-coverage in most regions more to a lack of resources and of adequate data at the municipality level than to mismanagement. Using the same 2004 survey, Portocarrero et al. (2010: 316–322) report that Glass of Milk had comparatively good outreach among the poorest households; quintile 1 and 2 beneficiaries constituted almost 60 percent of the total, while 25 percent came from quintiles 4 and 5. By 2008 these shares were 57 percent and 30 percent, respectively. In perhaps the most complete analysis of this programme as of its publication, Stifel and Alderman (2006) also judged that it was relatively well targeted to poor households and those with low nutritional status, primarily due to targeting poor districts and because poor households received larger in-kind transfers due to intra-district targeting. Taking the analysis one step farther, however, they find no clear impact on nutritional status, since the transfers of milk and milk substitutes are inframarginal for about half of the recipient households. Although this conclusion does not imply that the programme has no or a low payoff, it does highlight that to achieve a major nutritional impact requires even more precise targeting than simply getting milk to families who fall under a specified monetary poverty line, and that effective monitoring and evaluation is even more complicated than it initially appears to be.

On the other hand, the comptroller's office (Controlaría General de la Republica, 2011) and Professor Enrique Vasquez of Lima's Universidad del Pacifico (Páez, 2010) have negative views on the quality of targeting. Given this programme's importance, further analysis is clearly needed, both to assess the social implications of leakage and of under-coverage when they appear, and to assess their determinants. As noted earlier, leakage is less serious when the beneficiary is not far above the poverty line, and under-coverage is most severe when a non-beneficiary is far below the poverty line. Regarding determinants of leakage, Yokoyama (2007) reports that when mothers' committees in charge of the programme were monitored from below by the beneficiaries, leakage was only half as great as when there was no monitoring, whereas when the monitoring was top-down (by local government), leakage was the same as in the absence of monitoring.

The programme generates no waged employment. The mothers prepare the food for the beneficiaries' breakfasts within their own homes in the mornings, so a modest amount of productive employment is involved. Indirect effects on employment and income may, however, arise within the supplier firms, if they hire additional labour to produce the goods required for the programme.

Integrated Health System

In 2002, following complaints about leakage and under-coverage in two previous socialized health programmes—for schoolchildren and for mothers and infants, respectively—those programmes were merged into the new SIS programme, created as a decentralized public office under the Ministry of Health; in 2008, in the government's modernization process, SIS became an autonomous public agency. Since its inception, the programme has relied on existing public hospitals and the public health centre system to provide services to the intended beneficiaries; in return these hospitals were to be paid by the SIS for the professional care and medicines provided.

The ambitious declared goal of the SIS was to provide fully or partially subsidized health insurance to the poor and extremely poor population and those with no resources to cover insurance payments. Currently there are three programme plans: one is totally free for the poorest families; a second covers independent workers (or microentrepreneurs) who can gain personal and family access to SIS by paying a monthly fee of US$8–15, which allows them larger coverage than that of the first plan; and the third is for workers of formal microenterprises (and their families), who may be enrolled by the registered microenterprise owner, who—as employer—has to pay a subsidized monthly fee (around US$5 per worker). The latter two programmes were initially launched in a few cities and have since been expanding throughout the country.

SIS's declared goals of reducing chronic mother and infant undernourishment and, more generally, individual health risks within the poorer segments of the population have been at least partially achieved over the course of the decade. The system has continuously broadened its coverage to include more complicated health treatments and services. Its personnel are in charge of enrolling beneficiaries, verifying availability of services, supervising medical attention, verifying public satisfaction and processing the payments to the health centres providing the services. Informational campaigns and the simplicity of enrolment in the programme (with official identification and a form declaring incomes and poverty status) have multiplied the number of beneficiaries quickly, at a rate that the budget has not been able to match.

By 2010, the programme reported over 12 million insured people, or more than a third of the country's population. According to official SIS statistics, one third of the beneficiaries were children under 10 years, 28 percent were young people of 10–19 years, 33 percent were working-age people (20–59 years old), and a little under 7 percent were elderly people. Two thirds of the beneficiaries came from the poorest 40 percent of the country's population; in terms of location, 33 percent lived on the coast, 43 percent in the Andes, and the rest in the Peruvian Amazon. More than 96 percent were covered by the SIS Plan 1, while just 4 percent were under Plans 2 and 3. In 2010, the reported value of SIS transfers (without administrative costs) was almost PEN450 million (more than US$160 million).

The client population complains about limited and slow medical attention, while the public hospital administrators and professionals complain about payment delays and underpayments from SIS. The combination of an enormous increase in SIS users (a doubling between 2006 and 2008, for example), no additional budget for investment in physical infrastructure and only minimal increases in that for medical professionals and medicine, along with serious underpayment by beneficiaries of their contributions, has in effect created an excess demand for the public health system's services. The immediate consequence has been a *de facto* lack of coverage for a large proportion of the target population (Seinfield and La Serna, 2007), in particular the poorest families, many of whom are located in small towns and other places not yet included in the programme. The quality of health services has also fallen, in terms of both care and available medicines. These problems are the natural result of a sudden surge in demand which would be hard to cope with under the best of conditions but which is aggravated by underlying inefficiencies such as inadequate monitoring, deficient information systems and the weak capabilities of managers.

Peru's experience with SIS is similar in many ways to that of other health programmes. The demand for subsidized services is very high, the intent is laudable, but the resources are inadequate, and not enough planning has preceded implementation. Given the inevitability of a gestation period during which a system such as this increases the quantity and quality of its services, it is important to learn what could have been done better and how to proceed now. Overloading the scarce health professionals can clearly be counterproductive in the medium term. There may be trade-offs between targeting the poorest first, keeping costs down and keeping professionals satisfied. Fortunately Peru, with its rapid increase in public revenues from mineral-based growth, has more options available than many other countries.

Provias

The Proyecto especial de infraestructura de transporte nacional (*Provias Nacional*—PVN) was created in 2002 under the Ministry of Transport and Communication (MTC) as successor to the previous Programa especial de rehabilitacion de infraestructura de transportes (PERT). It was given technical, administrative and financial autonomy as a large temporary programme in charge (from design to execution) of transport infrastructure projects, including construction, improvements, rehabilitation and maintenance as well as planning, management and control of activities and resources. Two parallel programmes, *Provias* Departamental and *Provias* Rural, were created to handle specific local transport projects; in 2006 both were merged with the new *Provias* Descentralizado (PVD) to work with regional governments. All of these programmes have worked with private-sector firms selected through a bidding process; depending on the contract arrangements, private firms may be in charge just of the execution of the project or also of various aspects of its maintenance. By 2008, the overall programme dispensed around US$1 billion (more than PEN3 billion) for its different road projects, with more than 50 percent from PVN, more than 17 percent from PVD, and the rest mainly from regional governments (MTC, 2009: 2). The PVD was partially funding and providing technical assistance (in coordination with regional governments) to regional and decentralized rural transportation. Among sources of financial support were the World Bank and the Inter-American Development Bank (IDB).

The *Provias* programme's main social dimension lies in its contribution to low-income rural producers by giving them better roads, easier access to markets and hence better farm gate prices for their products. It also appears to have had important effects on local employment, as expected given the nature of its projects. Although no statistics on the total employment generated have been officially reported or otherwise estimated, it is plausible to expect that such local employment in road maintenance and rehabilitation would have positive reactivating effects on small, often sluggish local economies and their labour markets. Further indirect employment effects may be associated with the raw materials used in the projects, although most of the producer firms are not local but, rather, located in Lima or even abroad.

The economic logic of building or enhancing rural roads that help to connect low-income farmers to the market has long been recognized, especially when the cost of construction or improvement is modest and much of the work can be carried out by local workers. The World Bank (2010) tallies the benefits: in 11 years more than 15,000 km of rural roads had been rehabilitated, more than 500 microenterprises created to maintain the roads, about 6000 permanent jobs created and a major reduction of travel times (by 30–60 percent) achieved.

Before this project, "low-cost gravel road alternatives were discarded because communities were afraid they would not last" (MTC, 1999: 2). As of 1999 only 28 percent of rural households had access to a road in good condition, and freight transport services were infrequently available, if at all. Subsequent evaluations showed that 78 percent of households surveyed considered the roads to be adequately rehabilitated and maintained. A 2005 evaluation pointed to significant improvements in school enrolment (8 percent), visits to health centres (55 percent), land use for farming (16 percent) and male agricultural salaries (20 percent). Rural entrepreneurship was strengthened. After overcoming initial male resistance, women came to account for 24 percent of the workforce in the microenterprises by 2005. To increase the programme's benefits, a Local Development Window (LDW) was introduced; this mechanism, managed by non-governmental organizations (NGOs), identifies and prioritizes local productive initiatives. Institutional improvements, increased local participation and better local governance both helped and were encouraged by the project. A learning process was built in. For example, the fact that a measured impact on poverty was delayed by several years after roads were rehabilitated provided part of the incentive for the LDW (World Bank, 2010: 4). Involving women in the design of projects was critical to meeting their needs as well as men's. Participatory assessments resulted in the construction of footpaths, preferred by women because they are the safest way to take animals to pasture and to collect firewood and water. The project provided grants for women to start microenterprises.

According to the World Bank (ibid.: 5), the programme has become a benchmark for best practice in other rural transport operations in Latin America. This suggests that it can be seen as a step towards narrowing the gap between the rural development experience of a Latin country and those of East Asian success stories such as Taiwan in the early decades of their rapid and equitable development, when public investment in infrastructure was strong and rural synergies between agricultural and other activities were prominent.

Although its economic logic is impressive, implementation problems can always hold down the payoff to programmes like this one. Academic assessments, generally supporting the positive interpretation of World Bank documents, suggest that local ‘capture’ and corruption threats were controlled reasonably well. Escobal (2005), based on a variety of methodologies, concludes that there are important complementarities in rural infrastructure development, such that even if a given type (roads, electricity, water) is subject to diminishing returns, this effect can be overcome by advancing simultaneously on enough of these fronts. Efficiency and equity gains may not go together, especially at the start, because the better-off families have a stronger private asset base that allows them to make better use of the public investments.

Valdivia (2010), using a carefully designed quasi-experimental approach, confirms that motorized rural roads alter employment patterns, raise investment in education and health and bring greater income and other benefits when complemented by investments in other areas. Income effects were not significant on average, which is perhaps not surprising, since the survey from which the data were obtained was undertaken only two years after the intervention began (ibid.: 22). Such effects were strong in villages with pre-existing endowments of key productive infrastructure and may well have become generalized over time. Most of the positive results relate to interventions in motorized roads, although the tracks that help women enable a different and less easily quantifiable sort of benefit.

Escobal and Roman’s (2008) econometric analysis of the impact of rural roads implies an annual income gain for beneficiaries on motorized roads of US$121—or more than 35 percent of prior income. Residents near non-motorized roads did not show a significant income gain, attributed by the authors to their not having access to as many other public assets as the former group. Non-agricultural wage incomes rose by US$114 and US$69 for beneficiaries on motorized and non-motorized roads, respectively, while the latter group saw a reduction of US$97 in non-agricultural self-employment income (the former group saw no significant change); presumably this loss occurs due to the increased importation of goods that displaces local production. The roads did not significantly affect consumption of either group. Motorized road beneficiaries invested heavily in livestock, to the tune of 56 percent of annual income. No such effect was observed for families on non-motorized roads.

One challenge to measuring the programme’s effects is to adequately assess the benefits accruing to women from the non-motorized roads, given that many or most of them do not take monetary form.[15] Other challenges are suggested by the fact that some studies of Peru’s investments in rural roads have found no general pattern of income gains, although favoured beneficiaries near motorized roads have clearly benefited. Leaving aside the possibility of measurement error, a plausible hypothesis is that losses of some unspecified sort could be offsetting more easily observable gains or that some groups gain but only after a considerable lag. Attention must be directed to understanding potential losses as well as the time trajectory of both benefits and losses, the latter of which call for careful follow-up analysis.

A final desirable form of analysis around a project such as this one, where the initial evidence is encouraging, is a look at how big such an intervention could become. Such an assessment entails both taking account of the benefits and costs observed thus far and then assessing how much more rural infrastructure investment could be undertaken with comparably positive effects. The benefits would normally diminish at some point either because the payoff to the new infrastructure diminishes or because the labour absorption becomes less important as the rural labour market tightens up, or for other reasons.

Special labour programmes: ATU and Constructing Peru

Various temporary work programmes have been created over the last couple of decades. Two of the more important, judged by their budget, coverage and employment effects, are ATU and Constructing Peru, both under the supervision of the Ministry of Labour. ATU started in 2002 to mitigate the loss of employment during the ongoing recession by generating temporary jobs for heads of households from the poorest urban localities to work on small local economic, social or environmental protection projects such as water and sewage systems, sidewalks, pipes and walls. Projects were carried out by institutions (public, private or civic) willing to contribute with some resources to the projects and selected through an open competition, all under the supervision of the Ministry of Labour (Lizarzaburu, 2007).

The selected organizations hired unskilled workers for around four months at below minimum wage, selecting workers who had just lost their jobs, on the assumption that they were the most affected by the crisis. Candidates just needed to present official identification and proof of having one unemployed dependent under 18 years of age. The daily wage of around US$5 (or around US$100 per month) was set well below the minimum legal salary (around US$250 per month) to avoid perverse effects on workers' decisions and to avoid unfair competition in regular labour markets. This arrangement ensures that participants are those with the least attractive options in the local labour market. Official estimates indicated that ATU created 230,000 temporary jobs between 2002 and 2006 while implementing more than 500,000 local projects.

Lizarzaburu (2007) identifies a significant change in the programme's execution by late 2003, stressing its initial success, measured by the number of competitions and projects implemented and also by the progress in establishing solid managerial and application mechanisms. After 2003 the ATU became more permanent in character; with the crisis over, the budget was considerably reduced, there was increased rotation of responsible authorities, and the focus shifted to physical investment projects in marginal urban and poor rural areas, but with reduced hiring of unskilled workers because of the altered nature of the projects. The main consequences of these changes, evident by late 2006, were lower employment generation and lower income transfers towards the original target population.

Chacaltana (2003) criticized this programme on the grounds that its benefits did not match its costs, since the fiscal expenditure involved was greater than the final income gained by the beneficiary families. He noted the low unemployment rate among poor people, most of whom were engaged in low-income informal activities. His Propensity Score Matching analysis, comparing average incomes between otherwise similar beneficiary and non-beneficiary workers, in

2002 found the average incomes of the former (PEN300) exceeded those of the latter (PEN227) by 32 percent. The author's conclusion that these levels were 'similar' is an extreme interpretation, since for families in poverty or extreme poverty such a difference could be quite significant. His analysis also raises a more general methodological question of how such 'benefits' should be compared to the programme's fiscal costs, and to what reference points its benefit–cost ratio should be compared — for example, those of other programmes and policies that may reduce poverty or income insecurity.

In 2007 this programme was transformed into Constructing Peru. While its main goal remained the generation of temporary employment, mainly for those in poor and extremely poor conditions, there was now increasing attention to the development of skills of the formerly unemployed beneficiaries. As before, the main mechanism has been a competition among local organizations for local, labour-intensive projects in construction and services. Individuals, private organizations and local or regional public institutions have become the main counterparts. Between 2006 and 2010 the programme generated more than 300,000 temporary jobs, with almost 100,000 of them located in Lima (Jaramillo et al., 2009: 90).

The Juntos conditional cash transfer programme

Inspired by international programmes such as Progresa — Oportunidades of Mexico, the Toledo administration created *Juntos* in mid-2005, with the declared objective of reducing poverty and breaking its intergenerational transmission cycle. Its main immediate goals were to improve the access of poor families to quality education, health and nutrition and in the process to reduce the income gap between poor households and the better off, to further gender equality, to respect cultural diversity and to ensure the right to official identity for all. Initially under the PCM, *Juntos* soon gained administrative and financial autonomy; even its monitoring evolved toward external and internal evaluation systems.

Unlike the programmes discussed above, *Juntos* is a typical CCT programme that delivers monetary resources to low-income families with a view to increasing their basic nutrition, education and health under either voluntary or enforced criteria (for example, no money is transferred until the beneficiary proves that they have met minimum requirements of their children's school attendance and health checks). Its main target population is poor households where at least one member is a pregnant woman, a widowed parent, an elderly person or the tutor of a child under 14 years of age. *Juntos* provides PEN100 (around US$35) per month to women from households selected in part using the government's targeting system (SISFHO). In return, the women participate in health programmes — nutrition (i.e. it is mandatory that children of pregnant women and others under five years of age attend a health centre and accept the assistance offered), education (i.e. school enrolment and attendance of children aged six to 14) and identity (i.e. everyone, including children, gets their official national identification document). *Juntos* started in one of the poorest Peruvian regions (Ayacucho) and in one of its poorest districts. By late 2010 almost 500,000 households had been reached, mostly in poor and extremely poor localities.

The effectiveness of the programme's targeting and use of resources has received serious evaluation. Between 2005 and 2010, when limited publicly available data hampered independent assessment, national experts raised various concerns, including leakage and under-coverage. In 2008 the programme was redesigned to include two new components: a support group to advise and provide technical support, and an analytical effort to be carried out by research centres, including the IDB and the World Bank. In its recent (second) evaluation[16] (Perova and Vakis, 2011), the World Bank concludes that it has been broadly successful and, as in other countries, has strengthened the social protection system in Peru. It has had "a moderate impact in reducing poverty and increasing monetary measures of both income and consumption" (ibid.: executive summary), has increased the utilization of health services by both children and women and has improved the nutritional intake of households.

As in other countries where primary school attendance is high, the main impact on school attendance occurs at transition points (entry and graduation from primary). The majority of the indicators are increasing with the length of the programme. Despite these positive effects, no impacts are found on final outcome indicators such as malnutrition or anaemia, consistent again with international experience, and possibly pointing to the need for programmes such as this one to be complemented by an adequate supply of health services and interventions to improve quality. There has been no evidence of unintended and undesired effects such as a reduction in adult work effort, increases in fertility or in consumption of alcohol. The authors consider *Juntos* to be superior to other Peruvian social programmes, since it has already succeeded in reducing poverty (measured in monetary terms) and has had positive impacts on health, and there are other cumulative effects to be observed over time.

Though generally positive, these results raise a number of important issues. If nutritional intake is in fact improved, why does this not show up in indicators of malnutrition? Is there a natural time lag involved or something potentially more serious to the programme's ultimate success? Does the 'moderate' impact on income, consumption and poverty reflect simply the modest size of the transfers (Lustig, 2011) or is there a degree of inefficiency involved? What can be done to counteract the growth slowdown noted by Perova and Vakis (2011), while the programme still only reaches part of the poor population? Two main challenges confront *Juntos*: in the short term, to continue to reduce poverty among poor households; and in the medium to long term, to increase investment in human capital to help break the intergenerational transmission of poverty.

The experience of Foncodes

Foncodes was created in 1991 by the Fujimori government in the aftermath of the 1990 recession and hyperinflation, when poverty incidence exceeded 50 percent of the Peruvian population. After some reformulations Foncodes continues two decades later, now under the Ministry of Women and Social Development (Mimdes). Its broad goals are the social and economic advancement of the poor and extremely poor population through community-based activities designed to develop their capabilities and meet their basic needs, using both public (various levels of government) and private funding. Public funds include not only those from Mimdes but also from other ministries with similar interests and projects (e.g. housing or education). Additional resources come from soft loan agreements with international organizations (mainly the IDB and also the Japanese Bank for International Cooperation (JBIC), the World Bank and the German bank, KFW).

Foncodes promotes four types of interventions and projects aimed at:

- developing institutional and personal capabilities, aiming to improve the social capital of the communities through planning and managerial tools for regional governments, ‘executive nuclei’ (see below) and local leaders;
- economic development projects, aiming to strengthen local production of staple foods and agroindustry through investments in irrigation, soil preservation, reforestation, commercial infrastructure, small processing centres, small market centres etc.;
- social infrastructure projects, mostly small investments (typically around US$35,000) in public schools, public health centres, drainage pipes, drinking water systems, latrines, basic bridges and sidewalks and small electricity networks; and
- ‘territorial articulation’ projects, oriented mainly at formulating and coordinating the Foncodes interventions with the public and private sectors, with social programmes and with regional and local governments, to achieve better management of its projects throughout the country. In this regard, an important tool developed over a period of time by Foncodes, in cooperation with the Ministry of Economics and the National Statistics Institute, has been a National Poverty Map to identify poor populations within the smallest geographical division level (the district). Since 2003 it has become a key tool in allocating Foncodes projects and delivering its services to poor households.

Since 1996 Foncodes has operated through the ‘executive nucleus’, a representative community-based entity with sole authority to do business with Foncodes. Foncodes coordinates with regional authorities about the needs of poor people, to assess the possibilities for one of its own types of intervention; it then identifies and announces a set of projects for which the executive nucleus calls for local proposals. Foncodes provides the bulk (usually 90 percent) of the funding, while beneficiaries contribute the rest, mainly in the form of community labour and physical space. The executive nucleus selects the raw material providers, organizes community labour participation, supervises project execution and oversees maintenance. Through its local personnel, Foncodes monitors overall project execution and at the end transfers project ownership to the community. Its microcredit programmes, mainly implemented through public financial institutions, receive special attention (see Section below on “Microenterprise and microfinance in Peru: what about social policies?”).

Over the last two decades most of the projects approved by Foncodes have been located in the rural Sierra (although in the last few years an increasing number have gone to the poorest areas of Lima and Callao) for child-care services, beginners’ education, public health centres, secondary electricity networks and roads. According to Alcazar and Wachtenheim (2001), more than 30,000 projects were implemented during 1990–1998 at a cost of over US$1 billion, with around 50 percent for social infrastructure (e.g. educational centres and drainage pipes) and most of the rest for social assistance (e.g. nutrition and health centres) and economic infrastructure (e.g. irrigation and local transportation). Between 1991 and 2011, Foncodes issued around US$2.5 billion to fund 56,800 projects, around 40 percent of them for social infrastructure (e.g. educational centres, latrines), another 40 percent for economic infrastructure (e.g. tourist lodges, crop collection centres) and minor projects in diverse activities (e.g. slaughterhouses, small training centres) and finance (including microcredit). In January 2012, Foncodes was transferred to the new Ministry of Development and Social Inclusion (MIDIS), reflecting the new government's view on social policy and its role in reducing (mostly rural) poverty.

Based on its size and duration, a big demand-driven programme such as Foncodes should have yielded considerable benefits in absolute terms. Its nature, however, makes it hard to assess its positive effects on poor and very poor households. Based on a representative (but now dated) survey, Alcazar and Wachtenheim (2001) concluded that between 1994 and 1999 project success was not guaranteed by community participation and outreach, but that the level of development of the community, its human capital, training programmes linked to the project, and the presence of public institutions in the local community may have contributed to project success. Francke (2001) pointed out that local professionals—working with the executive nucleus—frequently developed clientelistic connections with Foncodes employees, although this does not detract from the projects' favourable effects. More serious problems have been quality control, maintenance, narrow coverage, lack of training for maintenance etc.

Has the Foncodes programme had significant employment effects together with the more direct benefits from the investments undertaken? Neither employment generation nor the promotion of labour-intensive technologies has been an explicit criterion for project selection, but the nature of most of the projects implies a considerable impact on labour demand. Since 1997 most of the Foncodes social projects have been implemented in areas with low or very low open unemployment rates, but, because of the nature of the projects, they do generate direct and indirect employment.[17] Francke and Espino (2001) highlight the different potential across types of projects to generate seasonal or temporary employment, identifying those with highest employment generation as including land recovery, construction of small-scale tourist facilities, drainage works, sanitation and small hydroelectric systems. Priority projects in terms of budget and beneficiaries have been small drainage pipe systems, small irrigation systems, and drinkable water, all of which are labour-intensive. Indirect labour effects may come from either inputs required or increases in consumption.

Some private social initiatives

Together with the approximately 50 public social programmes in operation as of mid-2011, there have been a number of others designed, supported and funded by the private sector. Going beyond a corporate social responsibility approach, these initiatives focus explicitly on specific dimensions of poverty. Their usual goal is to provide funds and technical assistance for certain target groups. The two programmes reviewed here are designed to strengthen the skills of low-skilled workers in previously identified (poor or in-need) areas, with a view to helping them to generate sustained labour incomes.

Fondoempleo

The National Fund for Labour Training and Employment Promotion (Fondoempleo) is a private autonomous organization in operation since 1998 that supports projects designed to lead productive employment with dignity and higher incomes for currently vulnerable workers by developing and strengthening their capabilities. Funding comes from participating private firms from the same department (state) as a given project. For many years this programme has been overseen by the public sector, despite its private nature. The fund's financial resources come from the net profits of the firms in the department involved (from large firms, mostly mining) as established by law, plus any funds from new voluntary contributors. Based on these resources, Fondoempleo covers most of the proposed expenses, with the collaborating institution assuming the difference. In 2010, it disbursed PEN80 million (almost US$30 million) in 12 departments.

Fondoempleo operates through an annual call for projects in the form of an open public competition throughout the country. Although it usually contracts a third party to manage the competition, it retains responsibility for evaluation, selection, funding and monitoring. Final criteria for selecting a project are the quality of its design and its potential to improve local employment opportunities and productivity. Projects approved vary widely both by activity (e.g. agriculture, livestock, tourism, small-scale textiles) and by beneficiary group (microenterprises, women). Most are executed by small and microenterprises, consulting firms, NGOs or any other public or private institution with more than four years of operation and judged capable of undertaking the proposed project. Because employment generation is the main goal, all the projects approved are labour-intensive and generate labour income directly and sometimes indirectly. The employment effects may be significant within a given locality. No detailed studies of the overall labour effects are available, however. Despite the significant resources involved, Fondoempleo's regional scope is limited by the fact that funding must come from firms located in the same department as the projects.

Sembrando

This programme was operated during President Garcia's second administration (2006–2011) by the NGO Instituto de Trabajo y Familia, formally headed by the President's wife but fully funded by international cooperation and donations from private individuals. The main declared goal is the social and economic development of extremely poor families in rural areas situated at an altitude of above 2500 metres, by creating the material conditions to break the vicious circles of poverty and exclusion. To this end, the programme aims to make the houses of these families healthier by introducing improved kitchens and ecological latrines, reducing malnutrition of children under five, and raising agricultural productivity through the use of improved seeds and better harvesting techniques. Its basic approach relies on inducing the communities to work with the NGO and involve their representatives in the projects. After a successful contact between Sembrando and the community, a development baseline and then a multidimensional strategy are set. Sembrando appears to have worked well in relation to its main goals. It has reached an increasing number of beneficiary families (over 10,000 in 2007 and about 28,000 in 2009). The key service has been the improved kitchens and the ecological latrines; others include literacy, advice in obtaining identification documents, and training. As with most other targeting programmes, direct employment generation has been minimal. The results have been appreciated in Peru and abroad though, and Mrs. Garcia has gained international recognition for this work.

The overall impact of Peru's social programmes

Since most social programmes are created to deal with one or another aspect of poverty, it is logical to ask to what degree their success can be measured by an analysis of poverty trends. As expected, the incidence of poverty in Peru (as defined by income) has fluctuated fairly closely with GDP per capita, which bottomed out in the early 1990s and only exceeded its late 1980s average in 2003–2004. But poverty reduction was not an automatic result of rising GDP per capita, and over 2001–2003 poverty reached its highest levels since the early 1990s. It then experienced a continuous drop for the rest of the 2000s, as per capita incomes rose rapidly (Table 3.5). Since 2000, poverty reduction has been more marked in urban areas (with a slightly

Table 3.5: Incidence of Poverty by Area (rural/urban), 1981–2009 (percentage)

Year	National	Urban	Rural
1981	51.2*	32.9*	83.6*
1993	53.9*	39.2*	88.2*
1995	45.3	37.4	59.8
1996	44.1	36.9	57.0
1997	47.6	33.7	72.7
1999	48.6	36.1	72.5
2001	54.8	42.0	78.4
2003	54.7	43.1	76.0
2004	48.6	37.1	69.8
2005	48.7	36.8	70.9
2006	44.5	31.2	69.3
2007	39.3	25.7	64.6
2008	36.2	23.5	59.8
2009	34.8	21.1	60.3

** Figures based on the Unsatisfied Basic Need methodology, as reported by the Instituto Nacional de Estadistica e Informatica (INEI) (1994: Table 8). The other years reported poverty line defined in monetary terms.*

Sources: INEI (1994; 2009).

larger percentage point drop and a much large percentage fall than in rural areas). Poverty rates in rural areas have been very high and are now about three times the urban level.

The degree to which poverty reduction has been a result of social policy is hard to judge. The issue is not whether that policy has been the principal source of poverty reduction –implausible in light of the rapid increase in per capita income and the modest amount of assistance probably getting through to poor people—but, rather, whether or not it has made a significant contribution to the decline. Although Table 3.4 shows a considerable leakage of benefits to non-poor families, if the reporting is accurate, 60–74 percent (depending on the year) of beneficiary families have been poor. No doubt a number of non-poor beneficiaries in a given year moved in and out of that state or were not far above the poverty line; in either case, their inclusion in a programme is not a bad thing *per se*, even though it would presumably have been still better had the targeting been more precise.

Such complexities show that using a single income-based poverty line to assess trends over time is overly simplistic; a more detailed statistical picture of trends in household economic status could add to our understanding of how socially beneficial the programmes discussed here are. Thus, although the available data suggest a considerable coverage of the set of programmes taken as a whole, they do not provide information that can be applied directly to help us estimate how much poverty reduction the various programmes might achieve. This is especially the case if an income definition of poverty is used and the figures for income do not include the value of the social services received (the usual situation); a basic needs definition may allow a better assessment. Even though there may be no as yet accepted metric for doing so, social protection programmes should also be measured against the criterion of economic security. In this respect, programmes such as Glass of Milk may be expected to score high.

Two broad approaches can be used to estimate the aggregate effects of social programmes on poverty (or other relevant variables): (i) econometric analysis in which such outcome variables are regressed against their known or presumed determinants, including the social programmes of interest; and (ii) analysis based on microeconomic estimates of the incidence of the programmes on poor people (or other groups). The former has not been attempted in Peru. Incidence figures such as those presented above can be used in the latter approach.

One systematic attempt to gauge the poverty incidence of social protection programmes and of government tax and spending more generally is that of Lustig and collaborators (reported in Lustig, 2011) for five Latin American countries: Peru, Mexico, Bolivia, Brazil and Argentina). The estimates for Peru refer to 2009. There is a striking range of experiences across these countries—for example, overall social spending (defined as cash and in-kind transfers plus benefits from public spending on education and health)[18] ranges from 17 percent of GDP in Brazil to 5.2 percent in Peru.[19] Direct cash transfers are at 0.5 percent of GDP in Peru, compared with 3.1–5.1 percent in Brazil, Argentina and Bolivia; in these three countries, most of the cash transfers arise from non-contributory pension schemes, which tend to be negatively redistributive but are much less important in Peru. Direct cash transfers reduce extreme poverty greatly in Argentina (from 13.5 to perhaps 5 percent) but only marginally in Peru, even including the important in-kind food transfers.

The estimated income redistribution effect of the budget (taking account also of taxes) also varies widely; the Gini coefficient falls by 13 points in Argentina (from a pre-tax and spending level of 0.48 to a post-tax and spending level of 0.35),[20] whereas in Mexico it falls from 0.502 to 0.433 and in Peru from 0.495 to 0.470, substantially the smallest reduction among these five countries. Poverty measured at a US$4 (purchasing power parity) level is estimated to fall almost not at all (from 28.8 to 28.1 percent), and extreme poverty (US$2.5) very modestly from 15.1 to 13.9 percent (ibid.: 26, Table 1). The main reason for this smaller progressive effect on equality in Peru is the lower level of social spending relative to GDP; in fact, given the lower levels of social spending, Peru (and Mexico) get the most redistributive impact per unit of spending (ibid.: 15). Households become net contributors to the fiscal system from the fourth decile up—i.e. the first three deciles receive more in social spending benefits than they pay in taxes.

Lustig et al. (2011) see Peru as a prototype case of low government spending which redistributes little in absolute terms but does get a good redistributive effect per dollar spent. In this respect it fits the conventional wisdom with respect to Latin American patterns of redistribution through the budget—little redistribution because revenues and social spending are low.[21] This study judges a number of the programmes to be positively redistributive, especially *Juntos*, the food transfer programmes, the SIS health system, and primary and secondary education spending, whereas ESSALUD (the contributory national insurance coverage that is part of the standard package for formal-sector workers) and pensions work markedly the other way (ibid.; see Table 5e). Note that these estimates are based only on what is classified as 'social spending', which does not include programmes such as *Provias* or the employment schemes discussed here.

Recent studies such as that of Lopez-Calva and Lustig (2010) identify a pattern of falling inequality in the majority of Latin American countries, including Peru over the last decade or thereabouts, which they attribute to a combination of decreasing earnings gaps between people with more and people with less education, and an increasing contribution of social spending to the non-labour incomes of the lower deciles. The decreasing impact of educational disparities on labour income is attributed to some combination of falling variance of educational attainment and a reduction in the disequalizing effects of technological change, which was particularly noticeable in the period after trade and economic liberalization. A small impact is attributed to demographic changes, as the difference between the larger families of lower-income households and the smaller ones of higher-income households diminishes.

Several continuing measurement challenges mean that the conclusion that inequality has been falling significantly in Latin American countries is not yet completely firm. Of particular significance is the failure of the household surveys that provide the raw material for the estimates of inequality to capture a high share of capital income. Meanwhile the empirical evidence points to an increasing capital share over recent decades.[22] Although trends in poverty and income inequality can provide one test of the impact of social spending, the benefits of such spending do not depend *per se* on whether poverty or inequality are rising or falling. It is highly probable that labour income inequality has been falling, and it seems clear that social spending is having an equalizing impact, some measurement problems in some countries notwithstanding. This is an undisputed benefit, even if overall inequality happens to be rising, an unknown at this point.

Whatever the degree of success Peru has achieved with its social policy, either in absolute terms or in comparison with other countries, many barriers remain to improving outreach and resource use efficiency. Drawing on the experience to date will be crucial in the design of the future social policy of Peruvian governments, including the one just initiated.

Box 3.1: The new Humala government and its social policy agenda — a quick glace

Since July 2011, Peru has had a new government, led by President Humala. In his campaign Humala stressed social inclusion as the centrepiece of his new economic and social reforms and policies. His proposed model of economic growth with social inclusion aims to reduce poverty while sharing the benefits of growth widely across the population.

Specific social policies proposed include (Gana Peru, 2011):

- doubling the coverage of the *Juntos* programme;
- increasing the minimum wage from PEN600 (more than US$200) to PEN750 (around US$250);
- introducing Cuna Más for babies in the poorest districts of Peru;
- a pension of PEN250 (almost US$100) for people older than 65 and with no insurance except SIS;
- Beca 18, to help young people from public high schools to go to a public or private university to study for a degree in applied science;
- Beca de Postgrado, for postgraduates to study abroad at prestigious educational institutions;
- strengthening the training of primary and secondary teachers;
- efficient supervision of the quality of medicines and promoting generic medicines;
- Mobil Assistance for Emergency System (SAMU), well-equipped, in the whole country, with an emphasis on rural areas;
- school breakfast and lunch for zero under-nourishment;
- extra attention to one-teacher, multi-grade schools;
- public utilities (electricity, drinkable water and drainage pipes) for all public schools;
- action against drug trafficking;
- increasing the number of police and police stations.

MICROENTERPRISE AND MICROFINANCE IN PERU: WHAT ABOUT SOCIAL POLICIES?

Peruvian microenterprise and microfinance — a brief review

As noted in Chapter 1, microfinance is one of the important institutional innovations of recent decades in developing countries. Its aim is to raise productivity and incomes in small, mainly non-agricultural firms and thereby to lower poverty and, in the best of cases, provide an important motor for equitable growth.

Peru is often considered to be the country in Latin America where such hopes are most justified, based on two conditions: first, the informal or microenterprise sector is very large both in absolute terms and in relation to formal employment; second, microfinance is quite developed both quantitatively and qualitatively, reflecting in part what has been described as “the best business environment for microfinance in Latin America” (The Economist, 2009), based on a combination of regulatory framework, investment climate and institutional development.

Most of the Peruvian labour force works in microenterprises, either as independent workers (almost half), owner-employers (around one third) or dependent workers (unpaid or paid). As in other Latin American countries, the microenterprise sector is quite heterogeneous by sector, technology and size; many of these differences underlie the also wide heterogeneity in productivity, output, value of sales and labour incomes, as shown by Rodriguez and Higa (2010) for 2004–2008. Over the years the more successful microenterprises have competed and shared markets with other small and medium-sized firms, while others have disappeared.

Integrated and specialized NGOs began to provide technical assistance and microcredit to microenterprises during the 1980s and achieved high recovery rates on loans. These experiences were duly noted, and from the 1990s on, taking advantage of more professionals on their staff, governments adopted a more active role towards microenterprises, with policies oriented mostly to providing technical assistance and financial services, mainly through a commercial rather than an assistential approach that included among other things attempts to broaden microenterprises’ access to markets through better information channels and a programme of government purchasing from microenterprises (see below). The focus has been on policies and public–private agreements to provide technical assistance to microenterprises under jointly financed schemes. Many of these public policies have not been large enough to have an aggregate impact; in some cases it remains unclear whether the design and operative mechanisms have made them effective in assisting microenterprises in need of their services.

The experience with microfinance has been different. The 1980s saw new, unconventional ways of funding microenterprises, including NGOs, credit and savings cooperatives, municipal funds (Cajas Municipales del Peru—CMACs) created in an effort to decentralize access to financial services and for about a decade the beneficiaries of German technical assistance, which came to compete in different ways with existing informal sources (relatives, suppliers, rotating credit and savings associations—ROSCAs). With the economic stabilization policies of the 1990s, the Peruvian development banks, credit and savings cooperatives and other financial institutions collapsed, as did many NGOs, while others were transformed into a new regulated form, Entidad de desarrollo de la pequeña y microempresa (Edpyme). After the collapse of the Banco Agrario, the government launched the Cajas Rurales with private participation in its ownership.

In the mid-1990s new regulatory rules for microfinance institutions (MFIs) transformed the whole system, created a new context for the regulated MFIs (CMACs, Cajas Rurales and Edpymes), which contributed to an impressive growth of the loan portfolio, recovery and outreach. The non-regulated MFIs (such as NGOs) and the informal channels were left outside the regulated financial system. During the past decade the profitability of microfinance activity has attracted the attention of commercial banks, which have purchased successful MFIs to transform them into Financieras, which then supply additional financial services. Currently, regulated MFIs co-exist with unregulated ones; a key difference is that the former are legally allowed to take deposits and are supervised by the regulatory institution Superintendencia de Banca y Seguros (SBS) to assure that they fulfill the legal requirements for operation. Fortunately, the SBS has attracted highly qualified and well-paid professionals in charge of implementing and reinforcing the prudential financial regulation.

During the past two decades the public sector has also channelled financial resources through its previously reformed second-tier development bank, COFIDE. Today the very modern, regulated microfinance system is expanding rapidly throughout the country; it has participated in mergers and product innovations, designed in part to attract new groups of clients. COFIDE has launched several funding programmes for regulated MFIs. Most recently the public Banco de la Nacion has become involved in microfinance through activities such as its 'window' (Ventanilla MyPE) designed to assist regulated MFIs in reaching remote borrowers (see below). Social policies using microcredit as a tool have been practically absent; by law, only regulated financial institutions may deliver even public financial resources. An illustration is the case of Foncodes, which, being a social policy institution, issues microcredit to its target population through the public bank Banco de la Nacion.

The MFI sector has thus become quite heterogeneous, with a financially strong regulated MFI in a period of rapid growth (including Cajas Municipales, Cajas Rurales, Financieras, commercial banks and cooperatives) and a search for new client groups beside microenterprises. In addition to this part of the market, there is the non-regulated and heterogeneous sector of NGOs with slow average credit growth, since they cannot mobilize deposits. Other more traditional or informal mechanisms of financing (e.g. money lenders, relatives, suppliers) have persisted historically, supplying finance to the smallest microenterprises and small consumers in both rural and urban areas. Despite the lack of information on this part of the market, it is evident that informal microfinance persists despite all the innovations and regulatory changes and that the continuing heterogeneity among Peruvian microenterprises is matched by differential access to financial services.

Public policy and microfinance

Government purchasing from micro- and small enterprises[23]

In 2003 the government created the Compras del Estado a las MyPEs programme to promote the formalization of micro- and small enterprises (Micro y Pequeñas Empresas—MyPEs) through direct purchases of such goods as school shoes and uniforms (delivered through social programmes such as Foncodes), office supplies, and food for school breakfasts. By law, all public offices of central, regional and local governments must purchase at least 40 percent of their total materials and services from MyPEs, whenever quality is guaranteed and agreed conditions met. Currently MyPEs are among the suppliers of practically all of the items they can offer, including those goods mentioned above and also personal services (e.g. packaging and storage, mail delivery, transportation, catering, tourism) and even some infrastructure projects (e.g. small communications projects).

Between 2003 and 2006, this programme remained small, and the legal minimum threshold of 40 percent was not met. Since then it has expanded, and by mid-2009, during the external financial crisis, it had become a centrepiece of the Garcia administration's policy response. As of mid-2011, official statistics reported more than PEN10 million (almost US$4 million) in purchases from MyPEs, compared to just PEN2 million in 2006. This increase raised the share of government materials and services purchased from MyPEs to 45 percent. The growth coincided with an institutional change, as the programme was moved from the Ministry of Labour to the Ministry of Production. This continues to be a promising strategy to raise the business and labour income of MyPEs.

Banco de la Nacion window for microenterprises

Given the sort of modern financial system developed over the last two decades in Peru, it might be expected that most financial services for small consumers and microenterprises would be delivered by the (regulated) financial intermediaries, including MFIs. In fact, Peru remains notorious for the absence or near absence of commercial banks and even regulated MFIs in the many remote areas of the country, including most of the Sierra and many small urban centres. In contrast, the government bank, Banco de la Nacion, has offices practically everywhere, including remote locations. This set of conditions gave rise in 2006 to an institutional arrangement between the Banco de la Nacion and any regulated MFI, whereby the latter may use the bank's premises to issue loans to microenterprises. In that same year another legal change permitted the Banco de la Nacion to act as a second-tier institution providing lines of credit to regulated microfinance institutions, thereby increasing the total supply of finance to MyPEs.

The 'window' mechanism has expanded throughout the country, and it is generally believed that all the parties benefit because of the expansion of their respective activities. By mid-2011 it was reported that more than PEN1.670 billion (around US$600 million or less than 2 percent of all the microloans) were issued in 500,000 loans under this scheme in the regulated system. Some concerns, not overly plausible, have been voiced by regulated financial institutions afraid of 'unfair' competition from a government-owned bank operating in far-flung places seen as market niches.

The Peruvian microfinance clientèle

As indicated above, the coverage and depth of microfinance is relatively high in Peru, with sustained growth of its lending and deposits. By 2011 (MIX Market, 2012), the outstanding portfolio became US$8.8 billion, with 3.6 million borrowers (around 25 percent of the Peruvian population between 15 and 64 years old); the amount of deposits reached US$6.6 billion, with 3.5 million depositors. Among the 70 regulated and formal MFIs, the repayment rates have been kept over 90 percent on average, although some delinquency problems appeared in the smaller MFIs. Deposits have been the primary source of MFI funding, at over 60 percent of the total portfolio. Average loans are around US$2500, and interest rates have fallen in recent years. The Peruvian MFIs have shifted their portfolio allocation somewhat from consumer loans to microenterprise lending, diversifying their basket of financial products (e.g. in 2011 the Caja Municipal Arequipa issued around 40 percent of its loan portfolio to small firms, 25 percent to microenterprises and 20 percent to consumption, according to the Superintendencia de Banca y Seguros).[24]

Given its active history with microfinance, Peru has naturally been the scene of much discussion and some analysis of the phenomenon. An important early study by Dunn and Arbuckle (2001)[25] concluded that "clients can consistently improve enterprise performance and increase household welfare. The positive impacts of microcredit appear to extend to the poor as well, although poor clients were more likely to turn to asset-reducing coping strategies than their non-client counterparts. The results of a separate analysis indicated that for several key variables—including enterprise revenue, enterprise fixed assets, business premise ownership, business licensing, intergenerational launching, and household income—increased time in the microcredit programme was associated with better outcomes on these variables." They also note that their findings refute a common industry assumption that "borrowers engage in long-term relationships with microfinance organizations and seek ever-increasing loan amounts over time. Only about 40 percent of the original client sample had a current loan in 1999, and they adjusted their loan requests in response to changing circumstances." Their overall assessment is, "A microfinance industry that provides a full range of services for small transactions may increase the financial options enough to provide the critical boost that low-income households need to achieve their goals."

In her later study, Tedeschi (2008), using a panel data set to test for the impact of microcredit on microenterprise profits while controlling for some of the more worrisome traditional biases (including selectivity in the lending programme) finds that, although such correction does lower the estimated benefits (in line with various earlier studies), it does not erase them; profits are still significantly higher as a result of the loans.

In short, the main positive conclusions of the general microfinance literature based on microeconomic evidence[26] have been reported for Peru. In a complementary analysis directed at the continuing challenge of monitoring the social effects of microfinance, Copestake et al. (2005) consider in-depth interviews important to gain an adequate understanding of those impacts, and state that most studies of this sort have tended to confirm significant benefits to borrowers.

Among the limitations of micro-level analyses is the difficulty of extrapolating up from it to potential aggregate effects on growth, inequality and poverty. The prevalence of microfinance in Peru and the favourable conditions for its success make this country a natural candidate for analyses of its aggregate impacts on poverty, inequality and growth, as well as economic security. Such analysis is effectively precluded in countries where microfinance is not large enough to make it reasonable to expect its overall or aggregate effects to be identifiable in the context of the various other determinants of these variables. Peru has not only a breadth of microfinance and conditions propitious for its benefits to emerge but an incipient analysis of the dynamics of the informal sector.

Two of the possible approaches to increase our capacity to judge actual or potential aggregate effects are (i) econometric analysis in which such outcome variables are regressed against other known or presumed determinants of those variables and also variables that reflect the size and other features of microfinance; and (ii) analysis of the dynamics of the informal sector (and perhaps the adjacent small-firm sector) with a view to better understanding how much productivity growth is taking place and how it occurs, how much it feeds into income increases for those involved, and how microcredit and other variables are involved in this process.

Box 3.2: The new Humala government and proposals for microenterprises and MFIs — a quick glance

After the government declared that the entrepreneurial development of MyPEs is crucial for Peru's economic development, the first policies announced in this area include:

- emphasizing the Comprare al Peru programme to increase government purchases from microenterprises;
- emphasizing the Marca Peru programme with active participation of microenterprises; and
- promoting financial services that may or may not imply an active role by the government in providing financial services:
  - o promoting financial services through the state-owned or -related banks (Agrobanco, Banco de la Nacion and COFIDE);
  - o emphasizing the use of Banco de la Nacion as a window for other regulated private institutions providing microfinance services; and
  - o explicit lines of credit and a diversified basket of microfinance products.

Some concerns have been voiced by larger institutions in operation. How all these policies will be compatible with the economic measures to be implemented is one of the current issues.

CONCLUSION

Most of the social policies implemented over the last two decades were originally designed to compensate for what were expected to be short-term negative effects on poor people from the economic crisis and the ensuing stabilization policies. In fact, since poverty has been a persistent problem, those policies have ended up as part of the government's response to this longer-term problem, complemented by temporary, assistance-oriented tools and approaches. To the extent that poverty is linked to such other long-term problems as underemployment, social policies have increasingly been seen as a way to deal with those problems and to improve the employment possibilities of beneficiaries. There is considerable evidence of Peru's success in reducing poverty at moderate fiscal cost, notwithstanding evidence of leakage of benefits to higher income groups and under-coverage of families within the target group.

The SIS is of particular interest and importance because it taps into an enormous social need, reflected in a very rapid increase in coverage after its launch but also in an overburdening of the existing health apparatus, with attendant dangers (quality problems, disaffection of both the public and the health personnel) and associated challenges on the fiscal, administrative and professional staffing fronts. What happens over the next decade will be extremely important, since this programme has very great potential to benefit low-income families, but it will require strong administration and a large spending outlay to achieve that potential. Its challenges are similar to those currently being faced in a number of other developing countries.

Another key programme is *Juntos*, the CCT programme designed to encourage families to keep children in school and to attend health services more frequently. Ex post evaluations have judged it to be successful in lowering poverty and raising educational attendance, without discouraging the work effort of the families involved. On the other hand, there is as yet no evidence of positive impacts on final outcome indicators such as malnutrition. The expected long-term benefits of higher educational outcomes among the children involved will depend on the evolution of labour demand in the economy, which in turn will depend on other aspects of economic policy.

Peru now has a large microfinance system, and there is considerable microeconomic evidence of benefits, as well as some aggregate data consistent with there being a significantly positive overall impact on the productivity of microenterprises. More research is needed, however, to confirm such effects and to measure them with greater precision.

Some social programmes (e.g. *Provias*, microfinance) have the potential to generate considerable employment, whereas others do not. We may expect that:

- the programmes that provide items of consumption (e.g. food transfers such as Glass of Milk) or final services (e.g. the literacy programme and SIS) will have very limited capacity to generate employment and labour income in the short term. Whether some of these policies may instead have negative effects by providing incentives for firms to become informal to hire labour at lower rates is an empirical matter on which little light has been thrown thus far;

- CCT programmes can have a large potential to generate better future employment and labour incomes for their beneficiaries, whenever future labour demand is strong enough to make the investment in their education (or health) pay off;

- programmes with more direct labour effects are those aimed at creating employment (e.g. ATU, Construyendo Peru) and focusing on repairing roads (e.g. *Provias*) or small-scale local productive projects (e.g. Foncodes). In terms of employment generation, the longer they run, the larger the effects. All these are by nature temporary programmes, thus the employment they generate is just temporary, usually with a previous training course. The expectation is that after the beneficiaries participate in the programme they will then be hired in the modern sector. This is probably unrealistic in most cases, but if the beneficiary moves on to any decent job, the programme can be considered successful;

- in Peru, despite its accelerated growth for almost two decades, employment has grown slowly, while underemployment has been higher that 50 percent. It may explain the persistence of social policies implemented with minor changes by all governments since 1990. This requires a comparative analysis of temporary as well as permanent employment generated by economic activities and by social policies, adapting with methodological approach to the available information;

- to better understand both the informal or microenterprise sector itself and the impacts of microfinance, it would be valuable to pursue the analysis into a sufficiently greater depth as to clarify the role of those microfinancial services; and

- regarding labour policy *per se*, Peru undertook a major reform in the early 1990s to simplify labour legislation, reduce the various costs for firms and flexibilize the labour force. There is thus far little evidence of the expected benefits in terms of increased formal-sector employment or other labour outcomes. The possibility remains that effects, both positive and negative, may arise with a substantial lag. This issue requires additional in-depth research.

ANNEX 3.1: ECONOMIC POLICIES IMPLEMENTED BETWEEN 1990 AND 2010: MAIN FEATURES

1990–2000

In 1990, in the middle of changes occurring worldwide (e.g. the fall of the Berlin Wall, the collapse of the Soviet Union, acceptance of the Washington Consensus), the new Fujimori government set the recovery and growth of the Peruvian economy and society as its main goals. The President demonstrated a personal style of government with few advisers and supported by the army. The main features of this period included:

- immediate economic policies: elimination of price controls and subsidies, exchange rate controls and interest rate controls, along with macroeconomic adjustment with fiscal discipline and related monetary policies, free trade and capital policies, repayment of external debt;
- main economic policy approach: generalized privatization, free trade and foreign capital entrance;
- key reforms included the privatization and reduction of government participation in production activities, with mainly foreign firms in the most dynamic activities: mining (gold), commerce, finance (banks) and public services (communications, electricity);
- parallel institutional reforms included tax collection, public services regulation and property rights, involving highly qualified professionals back from abroad (Contreras and Cueto, 2004);
- fiscal expenditure mostly for physical infrastructure investment and social policy programmes;
- labour and pension reforms were oriented to lower labour costs, towards free labour market relations;
- financial reforms, including a new banking law;
- important consequences to highlight:
    - Banking institutions and services became more diversified, involving some banks in a downscaling process to reach small and microenterprises as clients, increasing competition to existing Cajas Municipals and other regulated small institutions.
    - Petrol stations, supermarkets and other sectors became more modern and changed the face of the cities, mainly Lima, run with important foreign capital investment.
    - Internal demand for residential telephone lines, electricity and gas was largely met, reaching even urban poor families.
    - There were large flows of dollars, with an implied quick increase in imports (in final goods and inputs), with import businesses flourishing quickly.
    - Peruvian exports—mostly from mining—grew at high rates, also favoured by external demand.

    - Other non-traditional labour-intensive agricultural exports expanded quickly due to the spectacular growth of international demand.
    - Peruvian industry and small agricultural goods were competing against cheaper imports.
    - Social programmes covered rural and urban areas, with political bias management.

By late 1999, the international crisis caused internal Peruvian economic outcomes to deteriorate. After a generalized corruption system linked to the government was discovered, and in the middle of economic crisis and social discomfort, Fujimori resigned (and was later imprisoned).

2000–2001

A transitional government led by Paniagua aimed at undoing the previous corrupt system with new special organisms and implemented institutional and economic reforms to facilitate new elections.

2001–2006

The new President Toledo faced an economy in recession, with low private investment and high expectations from the population, setting political and anti-corruption goals. The main features of this period included:

- the general economic policy approach was kept, with:
    - macroeconomic real and monetary policies oriented to free market economic activities; and
    - stressing modernization of public policy;
- concerns emerged about the growth of financial as well as employment and income outcomes, associated with market policies (Jimenez, 2010). Voices in favour of market-oriented policies argued that no growth was possible in the long term if these policies were stopped (Loayza, 2008);
- proposed reforms and medium- to long-term policies could not be implemented because of opposition from society and local populations, mainly against the mining sector. The main policies were:
    - expansion of privatization programmes in all economic sectors; and
    - political decentralization reform among the country’s regions;
- other policies stimulated private investment in almost any economic sector. The increase in urban residential buildings, modern malls and shopping centres was notable; and
- crisis and further recovery of the international economy influenced Peruvian GDP, reinforcing the historical volatility (Schuldt, 2005). The rate of economic growth remained high.

Toledo ended his period with very low political acceptance, despite high economic growth.

2006–2011

Garcia's second term (after his first one in 1985–1990) stressed new free-market-oriented economic policies, emphasizing the difference and maturity in respect to his past 'more people-oriented' government. The stability of the international economic context until 2008 favoured economic growth, which was not even affected by the 2008–09 world financial crisis. The main features of this period, despite the still limited information available, were:

- macroeconomic monetary and real policies reinforced their previous orientation;
- private foreign participation in economic activity was stimulated through fiscal incentives;
- generalized trade agreements with specific countries were signed with strategic objectives, while general free-trade-oriented policies were reinforced;
- accelerated public investment in physical infrastructure and public services in early 2011;
- institutional reforms for public goods, property rights and labour reinforced the free market perspective; and
- an emphasis on the public management of policies, from design to evaluation, towards government modernization through new approaches ('budget by results') and tools (e.g. improved multi-year macroeconomic framework).

By July 2011, Garcia lost social and political support, mostly from the poor population, and finished his mandate with accusations of corruption against his party leaders and collaborators.

ANNEX 3.2: MAIN SOCIAL PROGRAMMES IMPLEMENTED IN THE 1990s — FUJIMORI

1990–1992

The first emergency programme initiated by Fujimori was expected to be temporary and was implemented after the structural adjustment policies to mitigate their negative effects on vulnerable groups. The main social programmes included:

- Programa de Emergencia Social (PES): social emergency programme;
- Foncodes: national fund for social compensation and development, to finance small, local social projects;
- Programa Nacional de Asistencia Alimentaria (PRONAA);
- Comedores populares: People's kitchens run by women in poor areas;
- Vaso de Leche: Glass of Milk programme to deliver breakfast for children in poor areas;
- Cooperacion Popular (COOPOP): reformulated based on the previous government's design, to implement local programmes; and
- Instituto Nacional de Desarrollo (INADES): public office in charge of executing infrastructure projects in poor Peruvian regions.

1993–1995

Social policy was reoriented after the 1993 Paris Club meeting, with Fujimori engaging the Peruvian government to target extreme poverty through focused programmes of education, health, food and employment generation. In addition to the programmes started previously, the main activities and programmes between 1993 and 1995 included:

- a national strategy of poverty alleviation is presented (at the Paris Club meeting), setting the basis for the new social policy, to then define new basic guidelines and actions;
- the main criterion for social expenditure on infrastructure and the supply of basic goods would be to focus on just the most vulnerable populations;
- programmes to promote temporary employment, health, education, security, public services and infrastructure just target extremely poor populations, to improve basic social expenditure and equality in opportunities;
- increased social expenditure in education, with a reduced share of total social expenses, in favour of health and other social programmes;
- education-related programmes included:
  - buildings and equipment for public schools across the country (through the National Institute of Educational and Health Infrastructure—INFES);

  - educational reforms, with programmes to deal with specific problems in public education (e.g. centralized, with large population coverage but large desertion rates, large share of payroll to total educational expenses); and
  - transfer of management and funding of public schools to local entities of municipality, parent associations, religious or professional associations, based on the view that they know better the local interests and needs and may also complement the funding;
- increased social expenditure in health, mostly to public hospitals with universal coverage, mainly to cover current (payroll) expenses, with minimum investment expenses; and
- health-related programmes included:
  - specific programmes to deal with high infant mortality, high illness rates and undernutrition, previously diagnosed as the main health problems in Peru;
  - basic health for everybody, reaching the largest coverage among the health programmes; and
  - transfer of the management of local public health posts to the people, through newly created local committees for shared management (CLAS).

1995–2000

- A narrowed strategy is set, to focus on just the extremely poor population unable to afford a basic food basket.
- A poverty-by-district map was built up based on data from several censuses and surveys, emphasizing information about height and weight, to target strategic programmes on those districts.
- Strategic programmes focusing on extremely poor districts included:
  - social assistance programmes: school-age child nutrition, family planning etc.;
  - social infrastructure programmes: public health, drinking water and drainage systems, basic educational infrastructure etc.; and
  - economic infrastructure programmes: roads to improve these districts' access to larger markets, small irrigation and electricity systems etc.
- Among the social programmes in education, one highlighted by the government was the programme to improve the quality of Peruvian education (MECEP), which focused on issues about the teaching and learning processes, performance measurement and the modernization of physical infrastructure. Results showed poor outcomes, highly biased to urban, non-poor beneficiaries.
- In health, the public social insurance system was reformed under a new institution (ESSALUD) to provide public health services not only to current formal-sector workers but also to their relatives as well as retired people and other population groups.

ANNEX 3.3: MAIN SOCIAL PROGRAMMES BY TYPE — PERU: 2001–2010

	2001–2006: Toledo[a]	2006–2010: Garcia[b]
i. Social programmes:		
Food and nutrition:	- Glass of Milk for defined target population - People's Dining - Pronaa (various programmes for food assistance, e.g. school breakfast, children dinning)	- the Crecer strategy to fight endemic under-nutrition among children - Glass of Milk redefined - People's Dining redefined - Pronaa reformulated - conditioned nutrition programmes (under the *Juntos* programme)
Infrastructure:	- Rural electrification - Rural *Provias* for improving roads - Pronamachs (for hydric basin management and soil preservation activities) - Various urban residential programmes (e.g. Techo Propio) - Improve your life and other Foncodes projects for social and economic infrastructure in rural areas	- Local population groups implementing projects (= redefined nucleos ejecutores — Foncodes) - Decentralized Rural *Provias* - Pronamachs - Various urban residential programmes (with Banco de Materiales) - projects for social and economic projects in rural areas — Foncodes
Temporary work:	- Rural: Let's work (A trabajar rural) - Rural: Let's produce (A producir rural) - Youth job training (Pro-joven) - Urban: Let's work (A trabajar urbano) - Female job insertion (Profece) - Programmes for supporting microenterprises (Promocion de la pequeña y la microempesa — PromPyME)	- Rural: Let's work (A trabajar rural) - Rural: Let's produce (A producir rural) - Youth job training (Pro-joven) - Urban: Let's work (A trabajar urbano) - Mi Empresa (merging the two PromPyME and Profece programmes) - Technical assistance and information services for microenterpises (CreceMyPE)
ii. Education:		
	- National literacy programme - Improving elementary education - Improving initial and secondary education - Rural education programme - Huascaran programme	- National literacy programme reinforced - Improved children's school attendance (under the *Juntos* programme) - Permanent training and evaluation of public school teachers

Source: *author's elaboration, based on information from other sources, as indicated.*

a Information taken mostly from Vasquez (2006: 14, Figure 1.1; and 52–55, Annex) and Du Bois (2006: 22–23, Figure 2.1).

b Information taken from various sources including Portocarrero et al. (2010: 275–325).

	2001–2006: Toledo[a]	2006–2010: Garcia[b]
iii. Health:		
	- Support for improving the health sector (PAR Salud) - Integrated Health Insurance (Seguro Integral de Salud—SIS)	- Improved health assistance (under the *Juntos* programme) - Reformulated Integrated Health Insurance (SIS redefinido)
iv. Other important experiences:		
Multi-dimensional programmes, involving several public sectors and offices	- Rural ownership legalization - Conadis (for disabled people) - National child care for at-risk children (Wawa-wasi) - *Juntos*, a cash transfer programme started in 2005	- Reformulated social policy approach, with changes in poverty reduction strategies (e.g. Plan de reforma de los programas sociales) - Defined political authorities in charge of coordinated social policies (e.g. CIAS) - *Juntos* strengthened - Mandatory use of official identification document (DNI) for adulthood - Enforced issue and use of free identification document (DNI) for children

Source: *author's elaboration, based on information from other sources, as indicated.*

a Information taken mostly from Vasquez (2006: 14, Figure 1.1; and 52–55, Annex) and Du Bois (2006: 22–23, Figure 2.1).

b Information taken from various sources including Portocarrero et al. (2010: 275–325).

ANNEX 3.4: EXPLAINING HOUSEHOLD PARTICIPATION IN A SOCIAL PROGRAMME — A LOGIT REGRESSION MARGINAL EFFECTS

Participate in a social programme	2009	2005	2000
Number of dependents	0.07735*	0.06815*	0.06071*
	36.95	33.92	10.68
Poverty status[1]	0.13626*	0.12698*	0.06424*
	17.74	15.61	3.03
Urban area[2]	-0.14454*	-0.19620*	-0.13993*
	-18.48	-24.89	-6.89
Works in a microenterprise[3]	0.01054	0.03317*	0.02606
	1.4	4.05	1.33
Age of head of household	.-0.00305*	.-0.00251*	.-0.00241*
	-11.71	-9.03	-3.42
Male head of household[4]	.-0.27389*	.-0.32688*	.-0.23815*
	-29.04	-32.21	-8.95
Education level[5]	.-0.03891*	.-0.06280*	-0.00869
	-9.26	-12.51	-0.76
# Observations	22985	21287	2929
LR chi-squared (7)	5639.77	5935.96	397.82
Prob > chi-squared	0	0	0
Pseudo R-squared	0.1939	0.2135	0.1062
Log likelihood	-11724.609	-10933.649	-1673.4231

Notes:
1 1=Poor or extremely poor, 0= non-poor
2 1=Urban, 0=Rural
3 1=1 to 10 workers, 0= 11 and more
4 1=Male, 0=Female
5 Includes both complete and incomplete level of education
** Significant at 0.1*

***Source:** author's elaboration, based on the ENAHO for 2000, 2005 and 2009.*

NOTES

1 Mineral dependency tends to discourage agricultural and manufacturing activities (the other main tradables) and thus leads to a focus on services.

2 See Chapter 1 for definitions of these terms as used in this study.

3 For the logic of such reforms, see the chapters in Heckman and Pagés (2004).

4 Between the previous peak (1987) and 2010, growth averaged just 3.0 percent, highlighting the importance of the fast growth after the sharp downturn of 1987–1992. GNI per capita grew at 1.3 percent per year.

5 This view is broadly consistent with that which emerges from the most in-depth study thus far of informality in Latin America, that of Perry et al. (2007).

6 Although there are no comparable income distribution or poverty data from the early 1980s, per capita income was higher then than at the beginning of the past decade; the absence of any reason to believe that inequality had fallen significantly over that interlude suggests that poverty was probably the same or higher than two decades before.

7 Comparing these figures to those of other countries of the Latin America and Caribbean (LAC) region as well as to economies that share similar socio-economic characteristics, it is notable that Peru's social expenditure is higher than that of Mexico, the other country of the region addressed in this publication, which only spends 7 percent of GDP on social expenditure. Nevertheless, Peru's social expenditure is still very far away from public social expenditure invested by Organisation for Economic Co-operation and Development (OECD) countries, which amounted to 21 percent of GDP on average in 2005, with Sweden and France even spending 29 percent of GDP. Taking the important role of social expenditure in the context of LAC into account, aiming at bridging the wide disparities in living standards between rich and poor people in the region with the highest social inequality worldwide, the minimal growth of social expenditure relative to GDP in Peru within the given timeframe does not appear adequate to address the country's giant income gap. One explanation for this might be the high public debt ratios, which remain at over 50 percent of GDP in the entire region, limiting the ability of governments to meet social needs.

8 Previsional expenditures are social expenditures to provide basic social services to older persons.

9 Dividing public social expenditure further into different sectors, the three biggest categories of social transfers as implemented by OECD member states are pensions (on average 7 percent of GDP), health (6 percent) and income transfers to the working-age population (4 percent). Public spending on other social services exceeds 5 percent of GDP only in the Nordic countries, where the public role in providing services to elderly and disabled people and families is the most extensive. Comparing these data to Peru (Table 3.3), most basic social expenditure flows into the sector of health and sanitation (PEN45.7 million), closely followed by education and culture (PEN40.5 million), and only a relatively small amount being invested in social protection and pensions (PEN13.8 million) (data from 2010).

10 The trends may also be biased due to redefinitions of some programmes.

11 Note, however, that by all estimates poverty did fall rapidly from local peaks reached around 2002, albeit from very high levels. A further complication in using poverty figures to evaluate any social programme whose main effect is not to increase the monetary income of families is that its effects cannot be expected to show up in that monetary income, which is the basis of most poverty estimates. Chacaltana (2006: 14–16) questions the large targeting distortions often attributed to several social

programmes, arguing that they are substantially due to measurement problems inherent in the coverage of the data source (ENAHO), such as a too small rate of response that opens the door for non-representativity; to differing implicit or explicit definitions of 'beneficiary' between families and the social programme staff; and to a focus on the number of non-poor families that are beneficiaries, rather than on how many resources are directed to them.

12 On this issue see also the World Bank's evaluation which identifies poor targeting, deficient financial management and funding leakages as factors that have undermined the efficiency of pro-poor public spending (López-Cálix et al., 2002).

13 Indicators such as the number of public complaints and the size of staff involved relative to tasks carried out are consistent with this view.

14 Other programmes may be equally or more important when judged by other criteria.

15 This is often the case. As highlighted, for example, by Shaffer (2003), ways to save time and effort expended in domestic tasks may be the most important benefits from such projects.

16 For the results of the first impact evaluation, see Perova and Vakis (2009).

17 The importance of job creation in countries such as Peru is usually not so much to pull people out of open unemployment as to raise aggregate demand for labour such that total wage earnings can rise.

18 The incidence of the benefits of social spending are estimated on the basis of the household survey (of 2009) which tabulates household responses as to what programmes and services they drew on. This direct information on incidence of benefits probably means that the results reached are more accurate than in some other studies where less direct approaches have to be used.

19 This figure differs somewhat from that implicit in Table 3.4, which is 4.3 percent of GDP when administrative expenses are excluded and about 5.8 percent when those expenditures are included.

20 As with most such estimates of the incidence of government budgets, the effects of items such as infrastructural investment (which are very hard to estimate) are not taken into account, and there is no general equilibrium analysis to trace the indirect effects following from the budget's first round effects.

21 Government (all levels) revenues as a percentage of GDP are far higher in Brazil (at over 50 percent) and in Bolivia (close to 40 percent) than in Peru and Mexico at just over 20 percent.

22 See, especially, Guerriero (2012) and also Rodriguez and Jayadev (2010). Evidence for Paraguay is presented by Gonzalez et al. (2010: 439). The fact that this pattern has characterized most industrial countries during the period of globalization also suggests that it may also have been occurring in some developing countries.

23 In legal terms, a MyPE is defined as a natural or legal firm under any organizational form, operating with 1 to 10 workers and annual sales value up to 150 tax units (as of 2007 one tax unit was equal to PEN3450 or around US$1200), while small enterprises had 11 to 50 workers and annual sales up to 850 tax units (Mintra, 2006).

24 *www.sbs.gob.pe*.

25 These authors made an attempt to take into account the methodological limitations to their analysis, including failure to measure displacement effects.

26 For a recent review, see Armendariz and Morduch (2010).

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