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DESIGNING A RURAL DEVELOPMENT STRATEGY FOR PERU'S SIERRA

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Background

Poverty and economic stagnation characterize most rural areas in Peru. National growth has been slow and uneven since the mid-1970s, benefiting urban areas rather than rural ones. Between 1985 and 2000, the number of poor people increased by 71 percent.¹ The incidence of poverty (67 percent) and extreme poverty (40 percent) is highest in rural areas, reaching 73 percent (poverty) and 41 percent (extreme poverty) in the *sierra*. This means that 4.2 million rural people live with incomes 30 percent below the poverty line and 2.3 million people live in extreme poverty.² Regional-specific policies to fight poverty may be warranted, notably a strategy for rural development in the *sierra* aiming for more equitable economic growth and reduced poverty.

The situation in Peru's *sierra* is similar to other marginal regions in Latin America: the highlands of other Andean countries and mountainous rural districts in Mexico and Central America. For historical reasons, these areas have high populations relative to available agro-ecological resources. The environment is fragile. Limited resources, bad communications and physical access, poorly educated labor forces and land access impaired by restrictions on property rights all inhibit development of modern market conditions and technically advanced production methods, and deter private venture capital. Population growth puts further pressure on resources. The lack of opportunities in the wider economy relegates most people to low productivity employment in a semi-subsistence economy

where their main asset (land) is undergoing serious environmental degradation. They scratch precarious livings on small plots in often-harsh environments.

In preparing a rural development strategy to address poverty and economic backwardness in the *sierra*, the World Bank brought together recent thinking of Peruvian development experts and practitioners, on how best to promote long-term development. The FAO/World Bank Cooperative Program contributed funding. Peruvian consultants, experts and non-governmental organizations (NGOs) were involved. Three background papers were drafted,³ three expert meetings convened, and poor people across the rural *sierra* were consulted.



A three pronged development and poverty reduction strategy was proposed⁴: (i) promote sustainable rural economic growth to increase rural incomes and reduce rural poverty; (ii) enhance human development through rural education and health services and provide social protection to those bypassed by growth; and (iii) build institutions to sustain growth and social protection, and enhance the capacity of people in the rural *sierra* to manage their own local affairs.

The strategy assumes that sustainable rural growth and poverty reduction are most likely to originate from the pull effect of national and urban growth, making market links between urban areas and agriculture/livestock in rural areas crucial. One way to accomplish this is through productive alliances among processors, institutional consumers and

producers. Further development of economic corridors, productive infrastructure and private investment are key. Improvements in subsistence agriculture will not lift people from poverty, but can improve food security and nutrition, significantly improving life among the very poor.

Rural education, roads, and health services are overarching priorities. The strategy analyzes social protection and safety needs from a risk mitigation perspective, looking at economic, survival, social, and natural disaster risks. Migration and off-farm employment are important safety nets. *Sierra* residents must themselves tackle social risks such as domestic violence, alcoholism, and livestock theft. Rural growth and improved service provision for the poor will only be sustainable and benefit the poor when solid institutions and social capital (at local municipal and regional levels) become urgent priorities.

Detailed Analysis

The Sierra region is heterogeneous requiring diversified strategies that were articulated in the various recommendations discussed below. For example, the northern Sierra is very different from the southern area, and different modes of production are appropriate within each zone.

Human Development

The *sierra* population was about 9 million in 2000 (3.2 million urban, 5.7 million rural) growing at 1.1 percent annually, 0.8 points below the national average and 0.95 percent below the natural growth rate, due to migration. Before mid-1960, the *sierra* was the most populous region, with over half of Peru's total population. Out-migration (seeking economic opportunities) reduced this to around one third. In recent decades, *sierra* towns have grown rapidly—averaging 3.7 percent annually, nearly one point faster than non-*sierra* towns. Rural people have moved to nearby local towns, seeking better education. Larger towns (except for Juliaca and Puno) are more than 100 kilometers apart and land communications are usually poor.

Primary education is nearly universal in the *sierra*. Eighty percent of the rural population had no secondary education in 2000. Overall illiteracy was 22 percent compared to 12 percent for all Peru. Illiteracy has decreased in the central and southernmost part, but was still around 30 percent (1993) in the north.

Infant mortality declined from 80 to 58 per thousand between 1991 and 2000. The corresponding figures for Peru were 64 and 43 per thousand. The consultations with the rural poor noted considerable improvements in rural health services, mostly in district capitals where health staff were permanently available.

Economic Performance

The *sierra* gross domestic product is about 22 percent of national GDP. *Sierra* average annual growth was 1.9 percent (1970-1996), only around 0.6 percent per capita. Without high out-migration, income per capita would have fallen. Labor productivity is approximately half that in Peru as a whole (1993) and long-term trends were zero growth (1972-1981) and 1.3 percent annual decline (1981-1993).

GDP structure has changed little. Agricultural output has risen slightly; agricultural real prices have declined dramatically to approximately 35 percent of their 1970 level. Agriculture accounted for some 25 percent of the region's GDP in 1996, followed by services (18 percent), industry (14 percent), commerce (13 percent), mining (11 percent), construction (8 percent), and public services (7 percent). The 1993 census counted 45 percent of the employed adult population working in agriculture. In 2000, more than 80 percent of the rural population worked in agriculture and mining (ENAHO).

Apart from potatoes and white maize, the main products of the *sierra*—wool, alpaca, fiber, beef and sheep meat, milk wheat and barley—are highly tradeable. They have been affected by long-term declines in world prices and by trade liberalization. Livestock levels and meat, wool and fiber yields have stagnated; the only significant improvements since the 1950s are potatoes (5.4 to 9.1 tons per hectare), and yields in the main dairy area of the *sierra*, Cajamarca.

Major economic developments have taken place recently in mining and tourism. Transport services and the handicraft industry have also developed. Several department capitals and other medium sized towns have experienced increased activity in construction, commerce, recreational and personal services. Roads and social infrastructure have improved in most places.

Table 1 - Characteristics of Sierra Households by Poverty Condition

Characteristics	Extreme Poor	Poor	Non-Poor
Net income (Soles/month)	62.0	83.5	233.9
Net income (\$s/day)	0.6	0.8	2.2
No education or only primary (%)	87.3	85.0	71.0
Secondary education or higher (%)	12.6	14.1	18.8
Household human capital index	0.118	0.137	0.233
Employment primary sector (%)	90.8	87.7	66.2
% Household members econ. active	47.8	52.1	67.2

Poverty

Inequality has decreased—because of impoverishment among the rural middle classes, not income increases among



the poor. Daily average income for *sierra* rural households is US\$1.3 dollars compared to US\$4.2 in the urban *sierra* and US\$3.1 for all Peru. Average daily incomes of the poor are below one dollar per day.

Poverty is strongly correlated with education, type of economic activity (primary sector) and household head employment situation (independent producers). Poverty is more likely in households with many children and comparatively few working age members.

Recommendations

Promoting sustainable rural growth.

Growth opportunities in the rural *sierra* are limited. Two types have different strategic implications.

Small, diversified opportunities in specific areas, mostly “niche” type, require moderate investment and can be undertaken by local people with technical assistance and financial support.

These in turn may be linked to *larger area or product-based opportunities* that exist in certain sectors and geographic areas: large-scale dairy and alpaca development, tourism, agro-processing, commercial forestry plantations, industry, mining and commercial services. These require major investments, know-how, government involvement, and private sector entrepreneurship which are generally absent from the rural *sierra*. Mechanisms for developing these opportunities include productive alliances, territorial development, and large private and public sector investment.

Productive alliances are agreements among producers, processors/wholesalers/exporters, government, and rural service providers that identify profitable markets for specific products, and organize all production and marketing. Government’s role is to facilitate agreements, provide public goods and services, and develop policy frameworks for research, extension, rural finance, land tenure and producer associations.

Territorial development programs cover municipalities, watersheds, or economic corridors. Local Development Councils (LDCs) made up of representatives of local

government, local communities, private sector agencies, civil society organizations, and decentralized entities of the central government, would develop local participatory rural investment plans. They would identify local rural growth potential and social needs; promote basic local economic and social infrastructure; and seek to tap local niche market opportunities. To encourage clustering and avoid spreading resources too thinly, several LDCs and the regional government could work together to establish economic corridors linking several small to medium-sized towns, establishing rural-urban ties and providing larger markets.

To attract private investment, government needs to develop infrastructure (telecommunications, roads, markets, energy) and skilled labor. The proposed strategy also suggests measures against soil erosion and mining contamination, protecting biodiversity. Reforestation could provide environmental benefits and income to very poor *sierra* dwellers. Commercial forestry development is hampered by land tenure arrangements that long-term rental agreements with the state could resolve. FAO and bilateral development agencies could help.

Enhancing human capacity and providing social protection

Education and health increase productivity, stimulate migration, and help reduce poverty, making rural education investments crucial.

Rural growth is likely to bypass many rural poor and extreme poor, unless specific investments, transfers and policy measures improve their living conditions and incomes. Three things are needed: minimum standards of satisfaction of basic needs for all; minimizing economic and physical risks that have major social economic impacts on the poor; and protection for minority groups made weak and vulnerable by age, gender, ill health, abandonment, isolation, ethnicity, etc.

Social protection needs to be organized around four principles: (i) recognition of the role of private informal safety nets in risk management strategies of the poor; (ii) efficient targeting of extremely poor groups; (iii) income support through direct transfers and rural employment programs; and (iv) food security programs where necessary.

Strengthening rural institutions

Strong rural institutions are needed to promote, plan, implement, monitor, and evaluate rural and social protection programs. Strong institutions boost democracy, self-reliance, and justice. They empower the poor, improve their quality of life and reinforce their cultural identity.

Rural institutions include regional and local governments, national institutions related to the rural sector, community level organizations, NGOs, other civil society organizations, and social and cultural norms that regulate social interaction. The most relevant public institutions are local and regional governments, which need capacity building and institutional development. The strategy proposes:

1. Establish provincial and district level Local Development Councils (LDCs) in all municipalities where they have not developed spontaneously.
2. Promote community level territorial organizations where they do not exist.
3. Establish regional level planning units, responsible for regional strategic planning, identifying economic opportunities, setting priorities for provision of public goods, and attracting private sector investment.
4. Bring national development agencies together under one umbrella and decentralize, to mesh closely with regional entities and LDCs.

Lessons learned

Successful programs have one or more of the following features:

- Delegate important design and implementation decisions to beneficiaries, and provide technical assistance and funding for maintenance. Examples: Rural Roads Project (World Bank/IDB) and Proyecto de Generación de Ingresos (PROGEIN) (Caritas)
- Allocate funds directly to beneficiaries for a wide range of activities from which beneficiaries can choose. (FONCODES directly funded *nucleos ejecutores*; IFAD funded Proyecto de Manajo de los Recursos Naturales en la Sierra Sur (MARENASS)).
- Transparent competition to provide financial incentives (MARENASS, INCAGRO, Market Development Place)
- Programs managed by women rather than men (*comedores populares*, credit schemes) tend to be more sustainable.

- Productive projects of any type, with strong links to markets.
- A limited geographical scope that respond to local needs.

Programs that worked less well were not aligned with beneficiary needs, and lacked capacity building and training to build communities' capacity for implementation.

Notes

¹ *Encuesta Nacional de Niveles de Vida* (ENNIV). - This resulted from a 23 percent increase in the incidence of poverty, a 39 percent increase in the rural population and a 9 percent effect of the two combined.

² INEI's *Encuesta Nacional de Hogares* (ENAHO), 2000. See Annex I.

³ An updated study of poverty in the sierra under the leadership of Javier Herrera, a paper summarizing long-term trends in the sierra's economy and society under Evelyne Mesculier, and a paper under Enrique Vasquez on lessons learned from the main development programs affecting rural areas.

⁴ A Rural Development Strategy for the Peruvian Sierra, June 2002 (draft), World Bank.



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