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## Crisis could have little impact on Peru's poor

A large proportion of Peru's population is concentrated in the mountain areas. Economic growth in the last few years has not had any substantial effect on reducing poverty in the rural highlands, where almost 70 percent of the population lives below the poverty line; it is hoped that the economic downturn as a result of the current global crisis will have an equally negligible effect.

Latin American countries are finding they are less affected by the crisis than other parts of the world (Trivelli, C., Yancari, Y. and De los Ríos, Carlos, 2009), mainly because it has come at a time when they possess international reserves and tax revenues with which to combat it. The greatest impacts will be felt by those labour markets linked to exporting sectors and wherever the rural world is intricately involved in dynamic product markets and uses outside production factors and employment.

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The Peruvian economy felt the negative effects of the worldwide financial crisis in 2009. GDP has fallen drastically: the year-on-year rate GDP growth fell from an average 11 percent in the first three quarters of 2008 to 6.5 percent in the last quarter, and to 1.8 percent in the first quarter of the current year (Banco Continental, 2009).

This blow to the economy comes after an exceptional period that drove up the 2008 GDP to US\$ 127.7 billion, after having grown at an annual rate of 7.7 percent in 2006, 8.9 percent in 2007 and 9.8 percent in 2008. Per capita earnings increased from US\$ 2,592 in 2005 to US\$ 4,457 in 2008. Inflation

was kept at approximately two percent in the years up to 2007, but rose to 6.6 percent in 2008 and fell sharply in 2009, when the accumulated rate of inflation over the first five months of the year was 0.4 percent

This economic growth was reflected in a reduction in poverty from 48.7 percent in 2005 to 39.3 percent in 2007, although the impact was slight among the rural highland population, which still has rates close to the 70 percent mark. The continuing poverty means that rural development in highland regions will be on the agenda for the coming years, especially in view of the competition for natural resources between agriculture and mining.

### ■ Possible impacts of the crisis

The importance of mining in Peru has led to a number of outcomes, which include:

- The accumulation of funds from mining rents and royalties in the hands of local and regional governments, which is a key factor in promoting local and regional development.
- Changes in legislation that will have implications on small-scale crop and livestock farming, biodiversity management, eco-farming and food security.
- In terms of the effects of climate change on a global level, Peru is one of the hardest hit countries, particularly as regards the availability of water, and this could lead to an increase in disputes over natural resources.

Due to the fall in the price of minerals, the crisis has greatly affected exports of traditional products, causing regional and local government earnings to drop. Another visible consequence will be higher prices of agricultural inputs, which will affect all farmers and particularly producers of crops for domestic consumption, where produc-

tion costs (bought-in inputs) account for 64 percent of total agricultural costs. According to Yancari, Y. (2009), the effects of the crisis in Peru are being felt in four ways:

1. Lower external demand, which will be reflected in a reduction in non-traditional exports;
2. Lower export prices, affecting exports of traditional products (minerals) and tax revenues;
3. Higher interest rates due to the lack of liquidity worldwide;
4. Reduced flow of external capital (Yancari, Y., 2009).

The fall in demand for non-traditional agro-exports will mean lower earnings and fewer jobs for agricultural workers, though it only affects those producers most closely integrated in production chains. Less foreign earnings do not seem to be an important factor for rural populations in Peru, particularly because migratory flows are mainly internal and, thanks to improvements in communications, many people have dual residences, which may be cushioning the effects of job losses. Dual residence is characteristic of many farming families and is a subject of national debate.

All the above relates to the trading sector of the economy, which would

indicate that the global financial crisis will not filter down so easily to the rural sector, where families operate protective mechanisms based on their own strategies for diversifying earnings and securing food. Consequently, the crisis may have little direct impact on the rural sector and on the poorest families.

### ■ Agricultural sustainability in rural areas

Unlike what is happening in other Latin American countries, most farming land in Peru belongs to small family farming units, generally classified as "peasant households". Moreover, there are also the lands of 5,860 peasant and native communities who control 40 percent of the total land used for crops and livestock and represent 2.5 million Peruvians, i.e. 40 percent of the country's rural population.

Agriculture is the principal generator of employment in Peru; it is estimated that 10 million individuals live off the land and they supply food to the country's towns and cities. At present, six out of every ten tons of food consumed originates from small farmers (Oxfam International Annual Report 2008/2009). According to the 2007 Population Census, 2.4 million people were working in the agricultural sector, constituting a large proportion of the rural populace.

78 percent of Peru's total rural employment is in the agricultural sector, a figure only exceeded in Latin America by Bolivia. Agricultural employment in rural areas has grown more in absolute terms than non-agricultural employment, both in the

*People in Peru's rural highlands have their own protection measures to cushion the crisis, including income diversification and internal migration.*



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1970s, the 1980s and in the 2000s. In contrast, in many other Latin American countries non-agricultural employment grew in absolute terms as fast as or faster than agricultural employment (Cavassa, A. and Mezclier, E., 2009).

### ■ Small-scale farmers have developed adaptation mechanisms

Rural smallholder families in Peru have a number of options mainly associated with the land, and they can apply know-how, methods and physical resistance they have acquired over the years. The diversification of their activities does not necessarily lead to their abandoning their smallholdings. The employment opportunities that mainly family farming units have used so far underline the number of systems and other dual-residence activities that enable them to handle crises with relative success.

Surveys of a group of peasant households in the southern highlands of Peru show that there is very considerable mobility among families (Cavassa, A., 2009). Of 450 families interviewed in 2005, only 200 could be located in 2008. This chiefly indicates the dynamic economic activity of many families between these two years. Based on earnings, they can be divided into two groups:

- On the one hand, a small but significant group whose earnings and tangible assets improved; the main change in the incomes of these families was the increased amount obtained from farming, with crops showing greater growth than live-stock.
- On the other hand, families whose economic conditions worsened; this is explained by the reduction in non-agricultural earnings (particularly employment), but agricultural earnings increased even in these cases,

### Promoting rural development

Of the many NGO activities for development it is important to highlight training programmes for leaders in rural development, the promotion of micro-businesses and rural and regional development plans. Two of the many examples of these are the Asociación Arariwa in Cusco ([www.arariwa.org.pe](http://www.arariwa.org.pe)) and Cedap in Ayacucho ([www.dexcel.org/pdf/cedap-2008.pdf](http://www.dexcel.org/pdf/cedap-2008.pdf)). The programmes must be geared to using of local technical services, and designed to meet the demands of users. Activities include strengthening direct management of the organisations, which is facilitated when:

- The set-up allows producers themselves to design training capabilities.
- The training approach incorporates family welfare, including aspects such as improvements in housing, cooking facilities, farmyard hygiene, latrines, and sanitary micro-landfills.
- A staggering of strategies permits more advanced trainees to further improve by better penetrating the market: approaches to potential customers, knowledge of product and business requirements (quality, volume, frequency, packaging, invoicing, payment arrears, etc.); membership of associations in order to access more demanding markets that pay better prices.

though without making up for the drop in family earnings overall.

These changes can be related to higher agricultural prices, the dynamic tourist industry in the area, and the higher value placed on Andean products by the country's burgeoning restaurant industry. Dual residence of persons with greater resources also allows them to combine the benefits of agricultural activities with the more numerous and better quality services provided in the towns: the district authorities usually reside in the nearest large city, but most modest families also try to include towns or cities in their economic strategies, often thanks to the presence there of children or siblings.

### ■ Measures to advance rural development

To counteract the crisis, Peru has drawn up an Economic Emergency Plan that gives priority to higher public spending and investment, in order to generate short-term employment. Agricultural policies face difficulties because they are not well interlinked with other sectors. This could be overcome by integrating them in the

national CRECER (english: GROW) strategy that aims to articulate and organise the different State interventions for eradicating poverty, one pillar of which is to revive successful production practices in agriculture and rural development.

The Development Projects for the Puno-Cusco Corridor and Marenass, which have now been completed, and the Southern Highlands Development Project which is underway, are considered to be successful in the fight against poverty since they incorporate strategies that can be adapted to local demand. Funds are directly transferred to producers' organisations by means of competitive government funding to activate the technical services market and targeting natural resource management and the promotion of rural businesses.

In the national rural development policies implemented on the basis of this experience, state development projects, the development experience of NGOs and the producers' associations are to complement each other. Each level of organisation, both public and private, will concentrate on what it does best. NGOs have developed strategies to reduce the costs of dis-





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*Agricultural production remains an important source of income for rural households in the Andean Sierra.*

them to keep them sustainably above the official shopping basket of USD 70 per person per month which classifies them as poor.

For this, small producers' organisations (farmers associations, peasants cooperatives, irrigators organisations, etc.) must be strengthened and they must be successfully integrated in networks or consortia.

*A detailed list of references can be obtained from the author.*

seminating technological innovations for families, so that rural households with only a few years of formal education use factors they are able to handle and require minimal financial capital (see Box on page 31).

### ■ Conclusion

The most successful rural development projects have strategies that can be adapted to the needs of the local

population. The continuing importance of agriculture in the rural sector, the efforts by families to give greater added value to their products, and the new strategies such as dual town-country residence, need to be understood and harnessed.

While rural development projects have successfully improved household welfare, as yet they have not been very effective in ensuring that rural families' earnings grow sufficiently to allow

### Further information:

Cavassa, A. (2004): *Construyendo región desde los espacios locales. La experiencia de Arariwa en Cusco.* EED-Asociación Arariwa.

German Agro Action (2007): *Evaluación Ex post de Proyecto en base a los indicadores del objetivo del milenio. Estudio de la Microcuenca de Piuray – Cusco.* Erwin Geuder-Jilg and Augusto Cavassa.

### Zusammenfassung

Die Staaten Lateinamerikas sind von der globalen Finanzkrise weniger stark betroffen als andere Regionen. Das liegt größtenteils daran, dass sie zu Beginn der Krise auf Währungs- und Steuerreserven zurückgreifen konnten. Die Bevölkerung im ländlichen Raum hat ihre eigenen Schutzmechanismen entwickelt, um Krisensituationen abzufedern, wie das Beispiel der peruanischen Sierra zeigt: Einkommensdiversifizierung und vor allem eine starke interne Migration sind charakteristisch für diese Region, in der knapp 80 Prozent der Menschen von der Landwirtschaft leben. Der nationale Konjunkturplan, der vor allem Arbeitsplätze schaffen soll, wird den ländlichen Raum aufgrund der mangelnden Verknüpfung von Agrarpolitik und anderen Politikbereichen kaum positiv beeinflussen. Wirksamer scheinen

die verschiedenen spezifischen Projekte zur Förderung des ländlichen Raumes zu sein. Dank dieser Projekte ist es bereits gelungen, die Lebensbedingungen der Familien zu verbessern. Ob es mit ihrer Hilfe gelingt, die Einkommen der Menschen nachhaltig so weit zu erhöhen, dass sie die Armutsgrenze überschreiten, ist jedoch fraglich.

### Resumen

Los estados de América Latina se ven menos afectados por la crisis financiera mundial que otras regiones. Ello se debe en su mayor parte a que – al iniciarse la crisis – los países pudieron recurrir sus respectivas reservas monetarias y fiscales. A su vez, la población de las áreas rurales ha desarrollado mecanismos propios de protección para amortiguar las situaciones de crisis, como queda demostrado

por el ejemplo de la sierra peruana: en esta región – que se caracteriza por la diversificación de ingresos y sobre todo por una fuerte migración interna – casi el 80 por ciento de la población vive de la agricultura. El plan coyuntural nacional (Plan Económico de Emergencia), que debía crear ante todo puestos de empleo, apenas tendrá influencias positivas en el mundo rural debido a la falta de vinculación entre la política agraria y otros sectores de la política. En vez de ello, los diversos proyectos específicos para el fomento del sector rural parecen tener un mayor efecto. Gracias a estos proyectos, ya ha sido posible mejorar las condiciones de vida de las familias. Sin embargo, es dudoso que tales proyectos logren incrementar el ingreso de estas personas en forma sostenible hasta el punto de superar el umbral de la pobreza.