

# Professional Service Providers



## Poverty in Peru

By: Bill Birnbaum, CMC

There are some 29 million people living in Peru. Of those, about one million people enjoy some meaningful level of discretionary spending. Those one million have the ability to purchase cars and clothing and to take vacations to other countries. The other 28 million can't afford to do so. Dividing one million by 29 million suggests that just 3% of Peruvians enjoy some level of discretionary spending. That is, they are in the middle to upper-class.

And where are those one million middle to upper-class Peruvians? For the most part, they live in the major cities of which Peru has four. Lima is the capital with some nine million residents. Trujillo, in Northern Peru, and Arequipa, in Southern Peru, each has about one million residents. And Cusco, also in Southern Peru, has a population of approximately 400,000. While smaller in population than the other three, Cusco benefits financially from an inflow of much tourist money.

That's where you'll find the one million middle to upper class Peruvians: in Lima, Trujillo, Arequipa and Cusco. Elsewhere in the country, the overwhelming majority of people live pretty much a hand-to-mouth existence.

And even in those four large cities, it certainly isn't everyone who is in the middle to upper-class. If you add up the population of those cities, you'll arrive at some 11.4 million people. And if one million among those 11.4 million are in the middle to upper class, that's a ratio of just nine percent. The four larger cities are hardly "uniformly rich."

According to official sources, as of 2004, 51.6% of the total population is regarded as poor, including 19.2% considered extremely poor. Today, only 60% of Peruvian homes have running water and 74% have electricity. Without question, Peru is a very poor country. But why?

To answer this question, we have to discuss separately (1) rural poverty and (2) urban poverty. Let's first discuss rural poverty. We'll start there for two reasons. First, rural poverty is far more extreme.

A recent government-sponsored study offered the following (preliminary) figures regarding poverty in Peru in 2006.

- Nation-wide poverty: 44.5%
- Rural poverty: 69%

- Urban poverty: 31.2%

The second reason we'll first to discuss rural poverty is that, chronologically, Peruvian poverty moves from the country to the city.

To begin our discussion of rural poverty, I'd like for you to imagine the following scene – please picture a corn field in Kansas. Yes, that's right, Kansas. I'll explain why in just a moment. For now, please picture a corn field in Kansas. Take a few moments to reflect on the image in your mind.

OK, now I'm going to make a couple of important guesses about the Kansas corn field which you envisioned. First, I'll guess that your corn field is flat. That sort of figures, because Kansas, like most of the US mid-west, is flat. So I'm pretty sure that you pictured a flat corn field. Am I right?

Second, I'll guess that your corn field is large. It's large because that's the norm in the USA and Canada. We're simply accustomed to looking at large fields of crops. In the USA and Canada, farming is "big business." Individuals, or families, or corporations own and cultivate large plots of land. So I figure that your Kansas corn field measures hundreds of acres at least. Maybe even a thousand or more.

And I'll venture just one more guess about your corn field. Your corn stalks are of uniform height. I'm right again, aren't I?

That last guess was really easy. For uniform height and uniform plant maturity follow from the flatness of the field. The climate is the same throughout the corn field so, assuming all of the corn was planted about the same time (a logical assumption), its growth and maturity remain pretty uniform.

OK, so now we've described the character of farming in the USA and Canada. Large, flat fields of uniformly maturing crop. And you know what that means? It means that the crop is a fine candidate for mechanization and automation. And, as you know there's much mechanization and automation in farming in the USA and Canada.

Instead of asking you to picture a corn field in Kansas, I could just as well have asked you to picture a wheat field in Manitoba, a soybean field in Texas or a cotton field in California's Central Valley. The story is all the same. Large, flat fields, uniform crops, and highly automated.

Flatness suggests one more thing about farming in North America. It suggests that transportation is easy. Rail cars running on tracks and large trucks traveling at high speed on straight highways are the norm when the terrain is flat.

Clearly North American farmers have their challenges. Farming, anywhere, is far from a risk-free enterprise. But worrying about how to get crops to market isn't among the concerns of farmers in the USA or Canada.

Now let's contrast farms in the USA and Canada with their counterparts in Peru. Contrast number one is that Peruvian farms are small. Two to four acres is the norm.

Peruvian farms are small for two reasons. First, General Juan Velasco Alvarado, Peru's president from 1968 to 1975, decided it would be a good idea to introduce radical reforms including agrarian reform. This involved taking land away from the rich folks and giving it to the poor folks. And because there are a whole lot more poor folks than there are rich folks, Velasco's program necessitated cutting up large parcels of land and redistributing the resultant larger number of smaller parcels among the populace.

I'm sure that President Velasco implemented his land reform program without bothering to get advice from an economist. For even a rookie economist would have predicted exactly what followed. What followed was a complete collapse of the Peruvian agricultural industry. Prior to land reform, a smaller number of experienced farmers were able to more efficiently produce crops on larger parcels of land. But after land reform, a larger number of far less experienced farmers worked much smaller plots, each plot too small to yield any level of efficiency.

The second reason why Peruvian farms are small is because of death. For, eventually, every farmer dies. And when he does, he leaves his farm to his offspring. Suppose a farmer has two sons. And the farmer dies. Per his will, the land gets cut into two pieces leaving one piece to each of his two sons. That makes for two, yet smaller, farms.

In the Andes region of Peru, there's another, very serious problem. The land is far from flat. Italian naturalist, Antonio Raimondi, who traveled the area in the nineteenth century referred to its topography as, "a crumbled piece of paper."

If you travel by bus between Cusco and Abancay, for example, you'll travel down into, and then back up out of a canyon the size of Arizona's Grand Canyon. During this 195 kilometer trip, your bus driver would have to negotiate a serpentine road containing some 700 winding turns. After your bus finally got down to the bottom of the canyon, it would have the slow, winding, almost painful, diesel smoke belching, grinding climb up the other side. This drive is representative of travel in the Andes region of Peru.

At the bottom of the canyon, the elevation is some 2,200 meters above sea level. Up top, the elevation is about 4,000 meters above sea level. That's some 1,800 meters difference, or 5,850 feet!

Remember how your corn stalks in Kansas were of uniform height? And your corn crop was of uniform maturity? Well you can imagine that over thousands of feet of elevation difference, climate varies widely, thus crop maturity varies widely. So even if the myriad of small plot farmers were to, somehow or another, pool their efforts and their crops, still they couldn't employ any significant degree of automation.

And this tortured, wrinkled land of the Peruvian Andes suggests one more problem as well. The problem of transportation. While a wheat farmer in Manitoba can easily ship to the Chicago market, and a soybean farmer in Texas can easily ship to all four points of the compass, a Peruvian farmer in the Andes, struggles to ship his crop **anywhere**.

So Peruvian farmers, particularly those in the Andes, make a subsistence living. They grow enough to feed their family and their animals and to sell a bit in the local market. Truly a hand to mouth existence. This is poverty in the country.

And so, quite predictably, a number of the young people from the country leave the farm and head to the larger cities in search of work.

And some do find work. But not many. For unlike our North American economies, the Peruvian economy is weak. There simply aren't many jobs available.

And because there are few jobs available, many arrivals from the country find their way into their own business. In fact, Peru's level of "informal employment" (self employment in micro-enterprise, unlicensed and technically illegal) is an astonishing 53%. And while it's good that these new arrivals have "something to do," they actually create an enormous level of competition for all micro-enterprise where the cost of entry is low. The cities are over-supplied with copy centers, locutorios (small stores filled with phone booths), small restaurants, and tiny grocery stores, all competing for the same few soles (a Peruvian sol is worth about 31 US cents). Because of this intense competition, profit margins are beaten down to almost nothing.

The overwhelming number of taxi cabs in Arequipa is representative of this problem. This city of 1 million inhabitants has some 12,000 to 15,000 taxis (estimates vary widely because the majority of the taxis aren't registered)!

Most of the taxis are tiny yellow Daewos which the locals call Ticos. Seems that, about a decade ago, the Peruvian government made a wholesale deal for a large number of these little yellow bugs. So each costs just \$2,000, half of which, thanks to a government finance program, the buyer can borrow from the bank.

The availability of these little taxis presents a viable option for a young man trying to earn a living in a poor job market. Sounds good, right? Yeah, too good! That's why Arequipa has a glut of little yellow bugs riding around, each driver putting in a 12 hour shift competing for a fare of 2 soles (62 US cents).

But though they struggle to earn a living, at least these micro-entrepreneurs have succeeded in joining the city's economy. They've, no doubt, taken a step up from the rural poverty from which they escaped.

But there are others, those who don't make it either as job seekers or as small business owners. They become squatters. Unlike in the US and Canada where suburban hills are dotted with the ostentatious homes of the rich, the hills surrounding Peruvian cities are dotted with the shacks of the poor.

These new, poor, suburban communities on the hills overlooking town are largely without utilities. Oh eventually, the government will get around to wiring the community for electricity. But not any too fast, for the government isn't any too rich. And finally, some years later, water pipes may follow. Until then, water will be delivered by truck.

These poor communities are hotbeds of frustration and trouble. Peruvians use the word "delinquencia" to describe the character of these communities. If you look up "delinquencia" in the dictionary, you'll find that the English equivalent is "crime." The Let's Go Guide to Peru ("Let's Go: Peru," St. Martin's Press, 2005) tells of the various trails which one might choose to climb El Misti, the largest of the three volcanoes overlooking Arequipa. The guide warns, "The poor areas around the base of El Misti nearest to Arequipa can be dangerous even for groups, so consider beginning your ascent from the backside of the mountain."

And so, poverty migrates from the country to the city, and along with this migration come significant social problems.

Is there any hope for a solution to poverty in Peru? Well, don't look to the government to solve the problem. For the government has very limited financial resources. And historically, the government has actually exacerbated the problem. Typical of countries in Latin America, Peru has long suffered from weak, corrupt government. Poor decisions including land reform and selling off mining and telecommunications rights for immediate cash (and perhaps some graft) have certainly done their damage to the country's economy. Those Peruvians aware of this sad tale from their recent history are angry at their government and, to a lesser extent, at the foreigners who own a significant share of the nation's wealth.

The hope for a solution to Peruvian poverty may lie with the NGOs (non-government organizations). The NGOs, funded by governments and foundations in North America and Europe, work toward reducing poverty at the source – on the farms in rural Peru. NGO projects include (1) training in farming techniques to increase efficiencies and crop yield, (2) formation of agricultural associations (similar to farm coops in the USA) to increase power in the marketplace, and thus prices paid to farmers and (3) development of transportation schemes so farmers in the Andes can

ship their crops beyond their local communities – to Peruvian cities and to export markets.

The NGOs seem to be a “mixed bag.” Some are clearly more effective than others. But will they, overall, be effective in reducing poverty in Peru? I really don’t know. And neither does anyone else.

But maybe there’s another possible solution to poverty in Peru – education. About a month ago, I sat reading a book on a bench in Cusco’s Plaza San Francisco. A young man, perhaps 16 years old, sat down beside me. He looked at me as though he wanted to speak with me but wasn’t sure that I, an Anglo, could communicate in his language. I put him at ease by wishing him a good afternoon; we then began our pleasant 20 minute conversation.

He asked where I was from and seemed especially pleased when I answered “I’m from The United States.” He had many questions regarding the economy of The United States: salary levels, cost of living, etc. He wanted to know about Latinos’ level of participation in the US economy and about the amount of money Latinos send to their families in Latin America.

As a student in the middle school, he agreed with my suggestion that education was the key to an individual’s future. In fact, he suggested that education might also be the key to a nation’s future.

Two or three times during our chat, he looked at his wristwatch. When I asked if he had to leave, he said, “Yes, I have to go to class.” He stayed just a bit longer though, long enough to discuss the importance of exports in bringing money into the nation.” Finally, he thanked me, said good bye, and hurried off to school.

As I watched him hurry from the plaza, I felt pleased. I recall thinking that if this young man were representative of the youth of his nation, then I could be optimistic about the future for Peru. Just maybe, in the mind of this 16 year old, and in the mind of others just like him, lies the solution to poverty in Peru.

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Bill Birnbaum, CMC, is President of Birnbaum Associates, Business Strategy Consultants. He’s currently working voluntarily as a business consultant to ADEA-Abancay in Abancay, Peru. He’s lectured at both UNAMBA and UTEA universities in Abancay and has written for *Nuevo Management* magazine. He’ll return to the United States mid-2008. You can reach him through the Birnbaum Associates web site at: [www.BirnbaumAssociates.com](http://www.BirnbaumAssociates.com). Or write to him at: [Bill@BirnbaumAssociates.com](mailto:Bill@BirnbaumAssociates.com).