



**INNOVA RURAL**

INSTITUTO PERUANO  
DE TECNOLOGÍA INNOVACIÓN Y GESTIÓN

## **Connecting Small Holders to Market Channels**

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# Background information on Peru



GDP (2012)*	US \$ 197 billion
Population (2011)	29.8 million
Average growth GDP (2002-2012)	6.4%
Average inflation (2002-2012)	2.8%
Average growth Private Investment (2002-2012)	11.6%
Public debt to GDP ( 2012)	19.8%
Net international reserves (May 30, 2013)	US \$ 66 billion
Dollarization ratio (2012)	44%
Openness $[(X+M)/GDP]$ (2011)	47%

\* Forecast

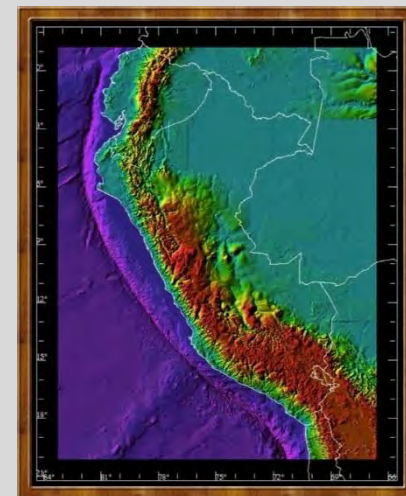
Main traditional exports	World Ranking (2011)
Gold	6
Copper	2
Fishmeal	1
Zinc	3
Silver	2
Tin	3
Lead	4

GDP structure (2011)	
Agriculture & fishing	8%
Mining & fuel	5%
Manufacturing	15%
Construction	7%
Commerce	15%
Electricity & water	2%
Other services	48%

# Features of Peru

Peru is an extremely fragmented country as well as limited by the barriers of the desert, mountains and jungle.

- The Coast: concentrates 60% of the population on 12% of the territory, highest incomes, better infrastructure, activities such as manufacturing, fisheries, trade, modern agriculture.
- The Mountains: 30% of the population, 28% of the territory between 1000 - 6800 m.a.s.l., highly dispersed population, activities: traditional agriculture and mining.
- Jungle: 10% of the population, 60% of the territory (basically rainforests), headwater of the Amazon river, activities: forestry.



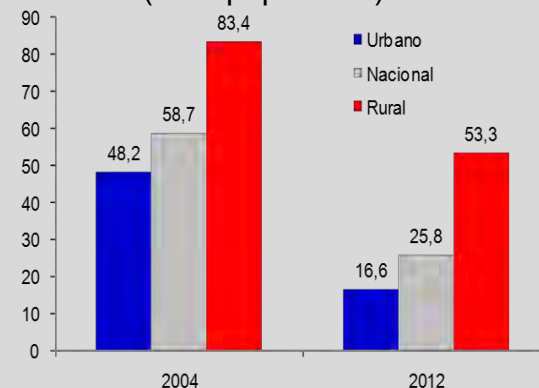
**Rural areas and poverty concentrate in the Mountains and the Jungle.**

# Features of Peru

- Greater dispersion of the population in rural areas: 60,000 small towns with less than 100 inhabitants.
- High level of poverty in rural areas: 53.3% of the country's total.
- Only 3% of the country, about 3 million Ha is arable land (In the US: 16.5% - 162 000 000 Ha)
- Smallholdings: 2.3 million agricultural units (85% mountains and jungle)

## Total Poverty 2004 - 2012

(% of population)





## Peru in the 70's and 80's

- Statist approach dragged from the early 70's with the military government (interventionist state).
- Deep economic crisis, hyperinflation, fiscal collapse.
- Low investment levels.
- High debt.
- High poverty levels.
- Welfare approach to support rural areas (indiscriminated subsidies).
- Aftermath of the Agrarian Reform in rural areas.
- Isolation from international markets.
- Terrorism: Abandonment of the fields.



## Peru in the 70's and 80's

- Lack of road, productive and communications infrastructure.
- Lack of basic services: education, health.
- Lack of access to information and communications.
- Lack of access to technology.
- Lack of access to finance.
- Lack of capacity building.



**The lack of investment had a greater effect on small farmers who lived in the most remote areas, the farthest away from the cities.**

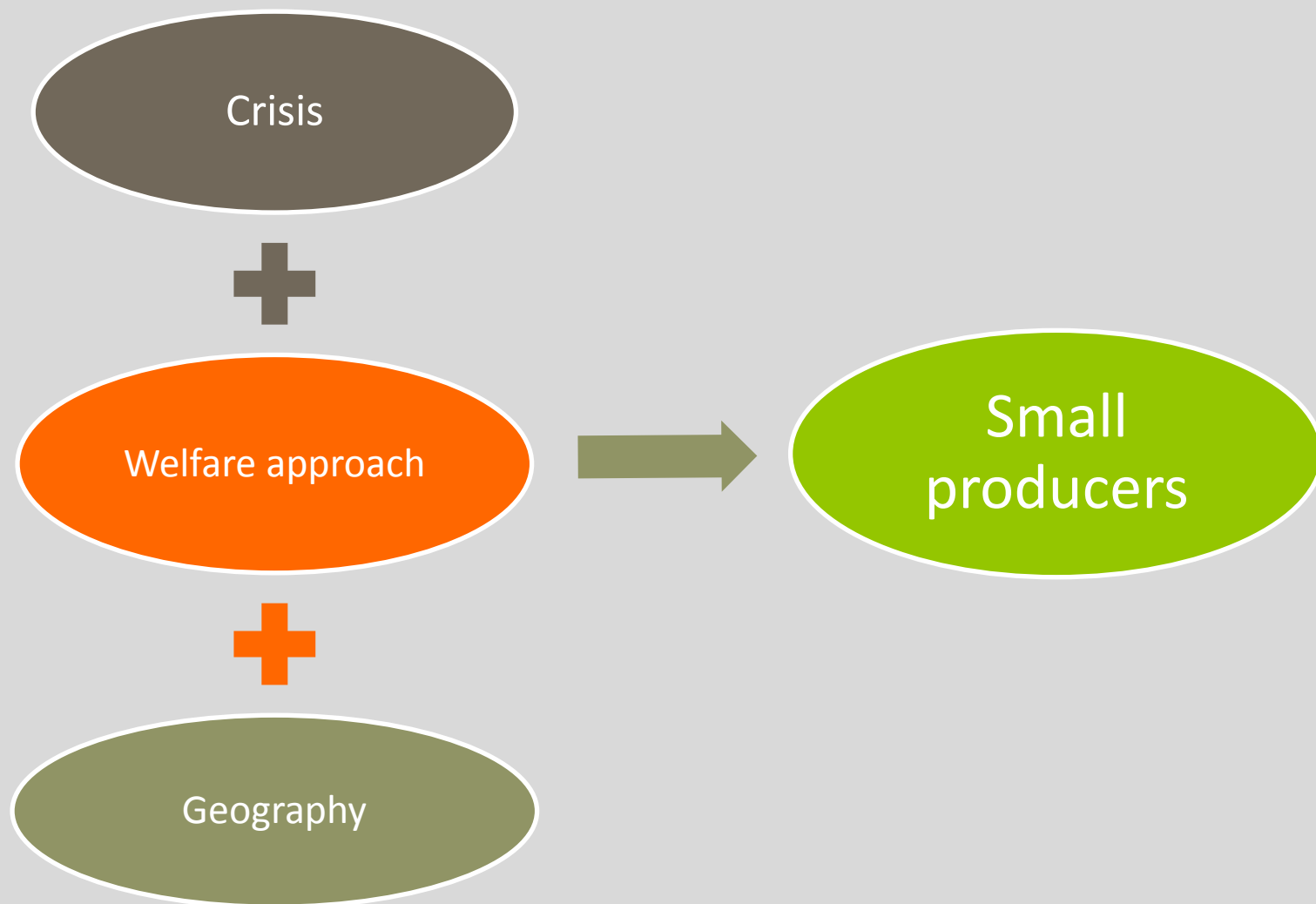


# Geography

- The rugged geography of Peru and the dispersion of its population increase the costs of, reduce and hinder the provision of basic services and infrastructure.
- The geography of Peru has been an obstacle to the development of small producers and entrepreneurs.
- Geography represents an obstacle that limits the capacity of producers, making access to markets difficult and expensive.



# Real effects in small producers



# Real effects in small producers

- Weak links to markets, small producers are constrained to poor local for subsistence markets, with high transaction and transportation costs.
- Insecurity and deterioration of the merchandise by travel conditions reduces the income of producers.
- Less bargaining power -especially with brokers- due to lack of access to information relevant to decision-making: prices, climate.
- Lack of modern means of communication has a dramatic effect on the information exchange (cost, volume and speed), which is essential for any productive activity.

# Real effects in small producers

- Unprofitable agricultural activity embeds poverty.
- Lack of working capital and resources to invest → no chance of growing.
- Use of outdated techniques and technologies reduce productivity.
- Lack of quality health and education services reduces people's capacities.



# Challenge

The challenge is:

- How to save millions dwelling in remote areas from poverty
- How to change from a welfare model to one that promotes investments and access to markets.





# What is needed to achieve the development of small producers?

- Road infrastructure
- Telecommunications and electric power infrastructure
- Productive infrastructure (channels, reservoirs, etc.)
- More sources of funding
- Access to training programs (support mining companies)
- Access to information for decision-making

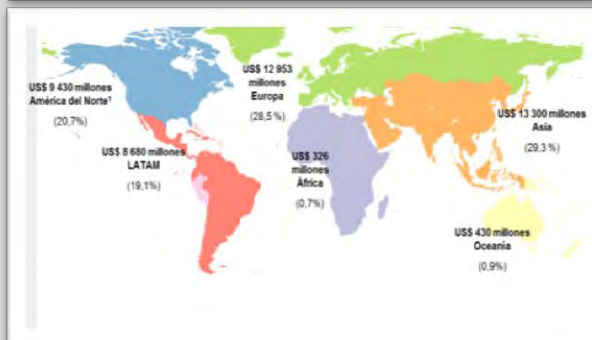




# Starting a new era: New Approach

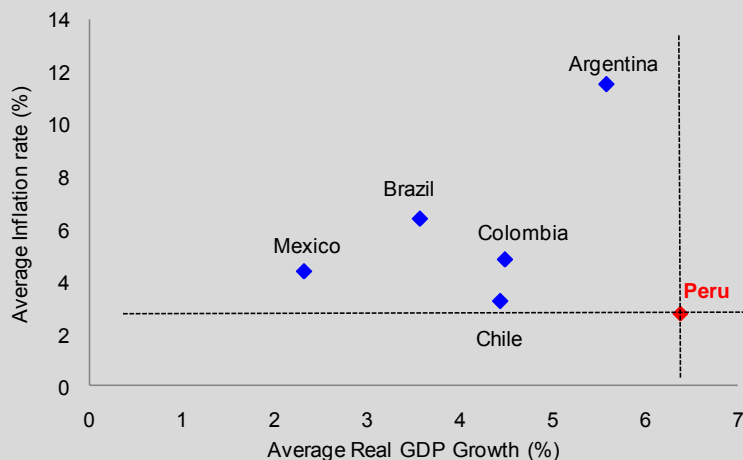
# Structural Reforms in the 90's – 00's

- Sound economic policies
- Promote private investments: infrastructure and productive activities
- Openness and integration with the World
- Defeat terrorism
- Social programs
- Fiscal decentralization



# Peru's macroeconomic performance over the past decade has been exceptional

LATAM: Real GDP Growth and Inflation  
(2002-2012)



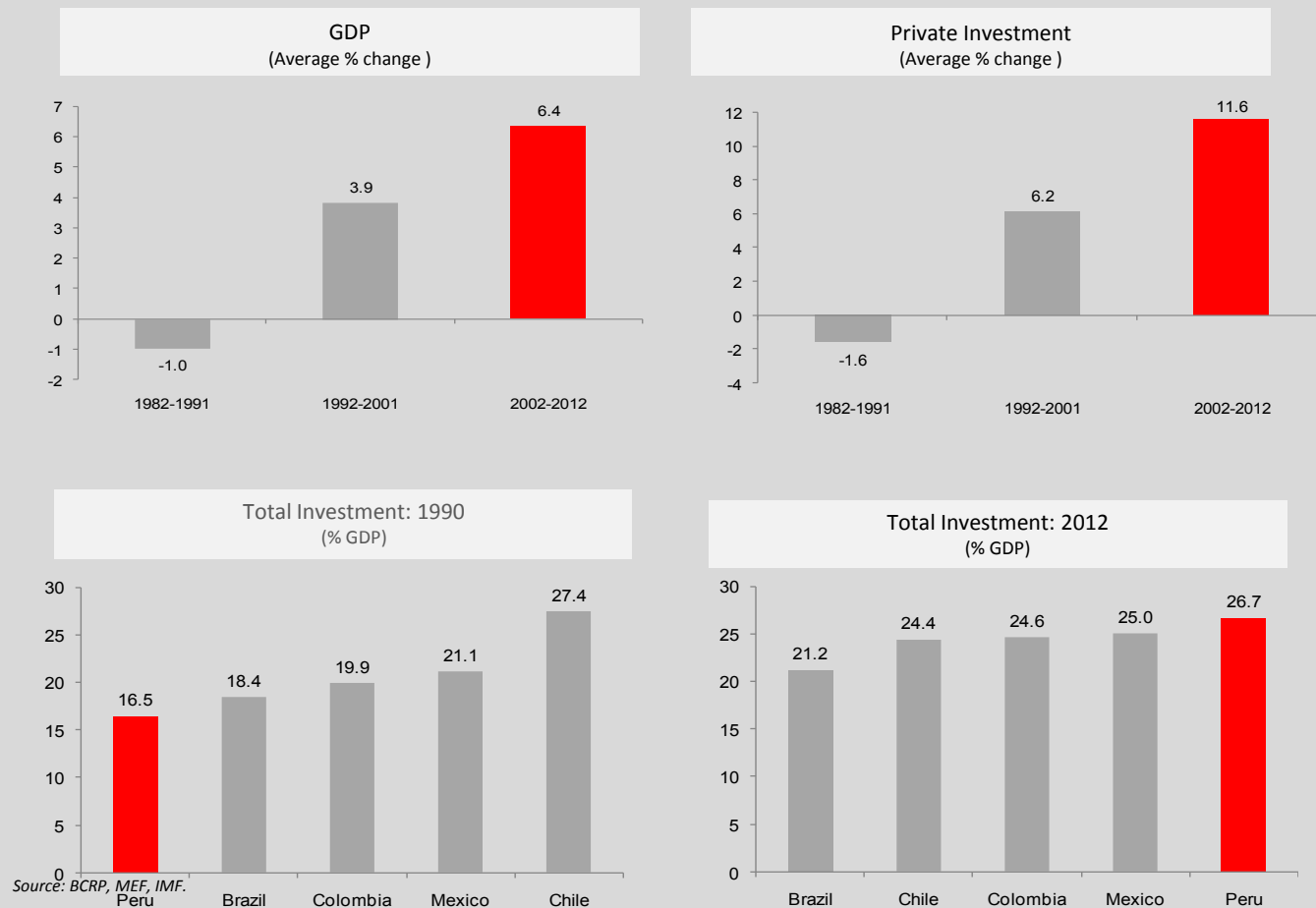
**LATAM: GDP Growth and Inflation**  
(Average % change)

	GDP	Inflation
<b>Peru</b>	<b>6.4</b>	<b>2.8</b>
Chile	4.4	3.3
Mexico	2.3	4.4
Colombia	4.5	4.8
Brazil	3.6	6.4
Argentina	5.6	11.5

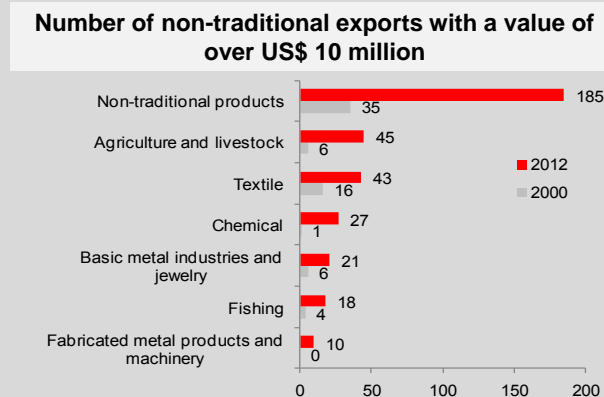
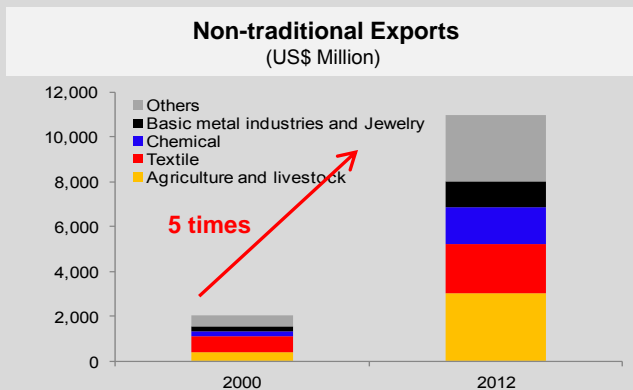
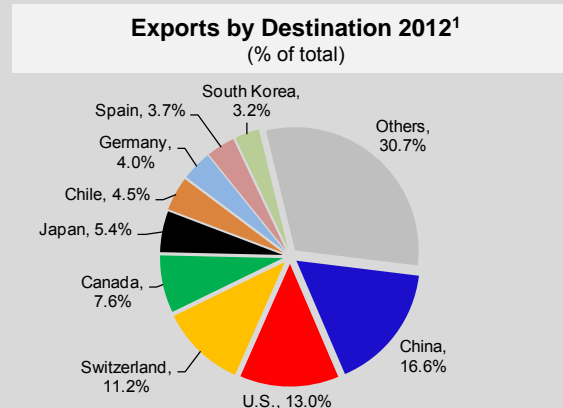
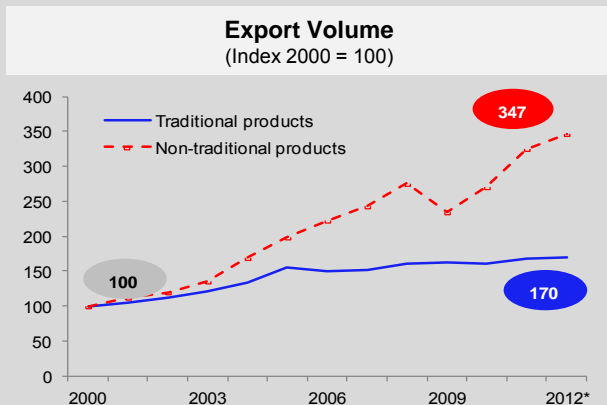
During 2002-2012, Real GDP grew at an average annual rate of 6.4 percent (the highest in Latin America), and the annual inflation rate fell to 2.8 percent on average (the lowest in Latin America).

Source: MEF, IMF.

# Investment has been a fundamental factor to explain economic growth in the last two decades

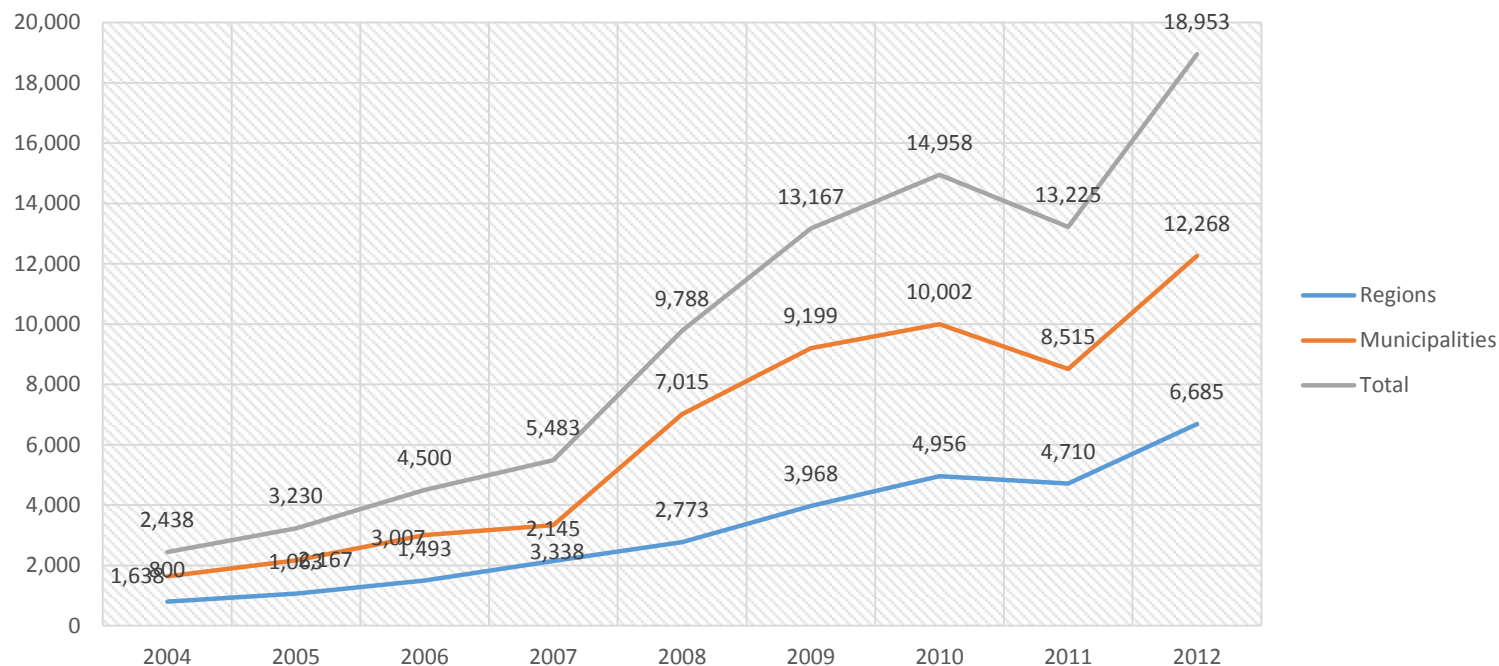


# Export growth due to market and product diversification



# Dramatic increase of Public Investment in the Regions and Local Governments

**Public Investment of Regions and Municipalities (millions S/.)**





An important change  
for small producers

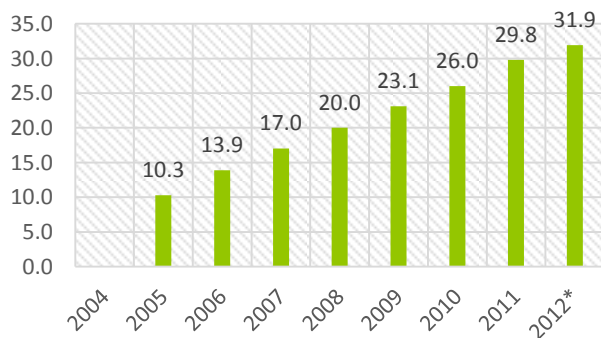
## New Approach

- Promote access to markets
  - Investments in road, electric power and telecommunications infrastructure
- Promote access to better technologies
- Promote access to finance
- Partnerships with the private sector (mining) in order to improve capacities

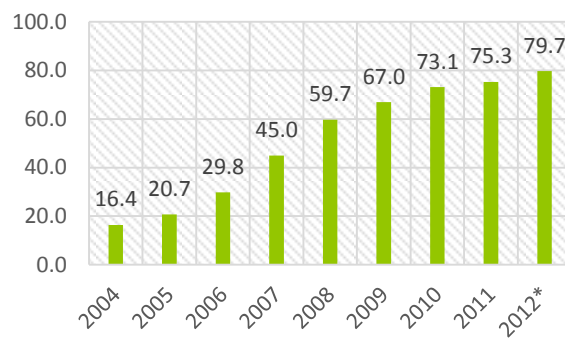


# Greater access to information

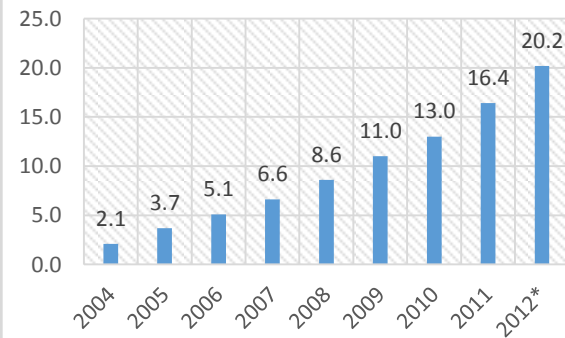
**% of homes with cable service**



**% of homes with mobile phones**



**% of homes with internet access**

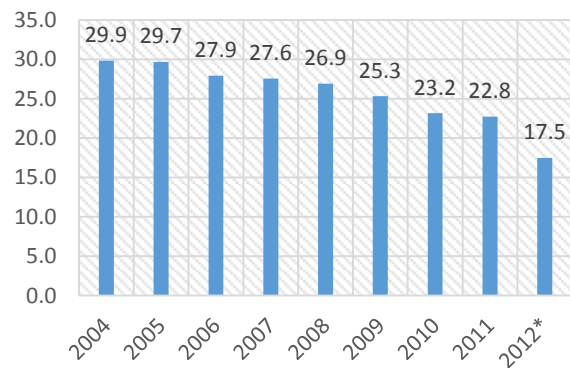


Sources: MEF, INEI, Minedu

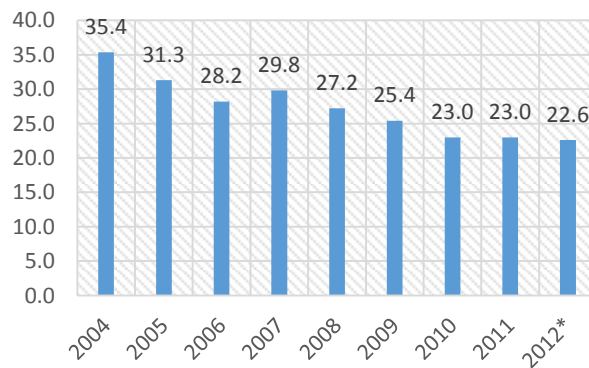
- **Agro mensajes:** state Program which provides information about prices to small farmers on their mobile phones.
- **Sisap:** Ministry of Agriculture's prices system (internet)

# Better access to basic services

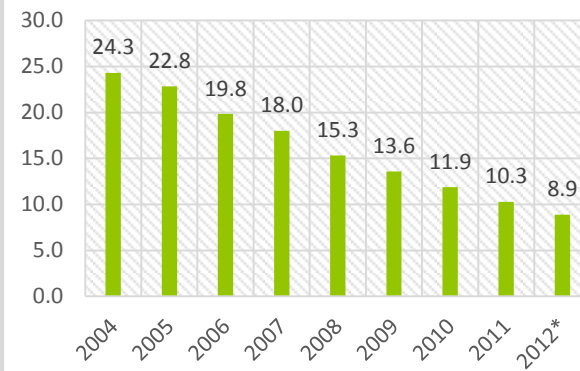
**% of homes without access to drinking water**



**% of homes without access to drainage**



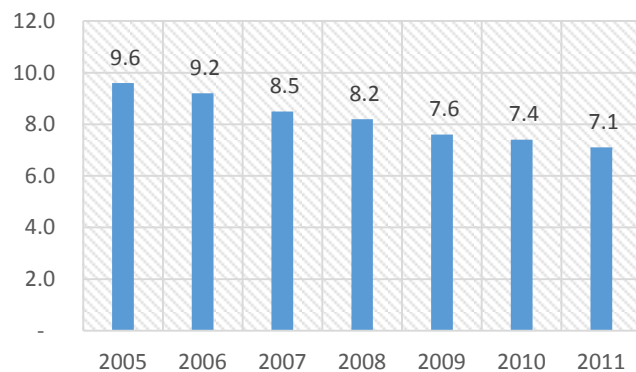
**% of homes without electric power**



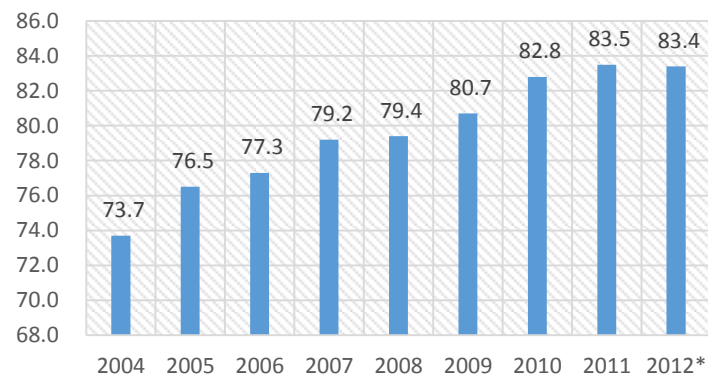
Sources: MEF, INEI, Minedu

# Better access to education

**% illiteracy (population over 15 years)**



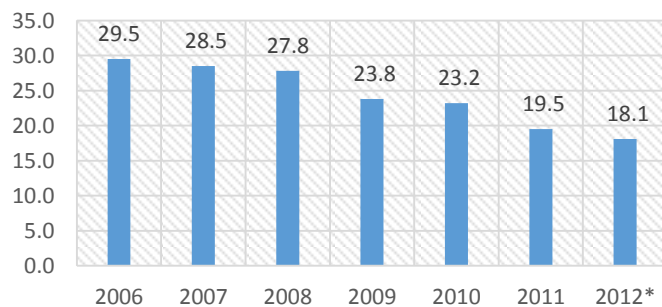
**% of children with primary education**



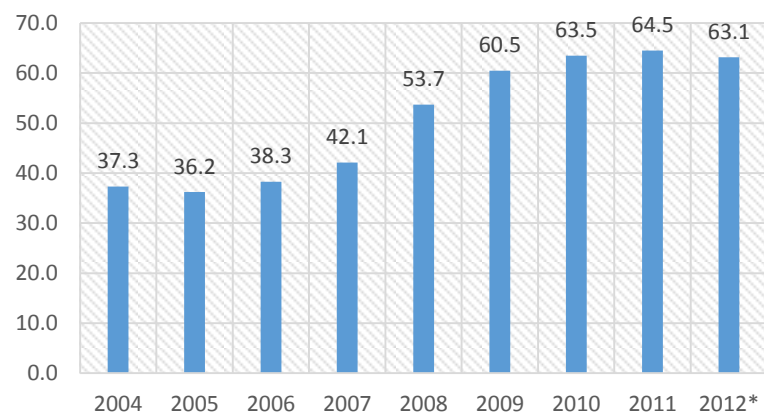
Sources: MEF, INEI, Minedu

# Better access to health services

**% of children with malnutrition (under 5 years)**



**% access to health insurance**

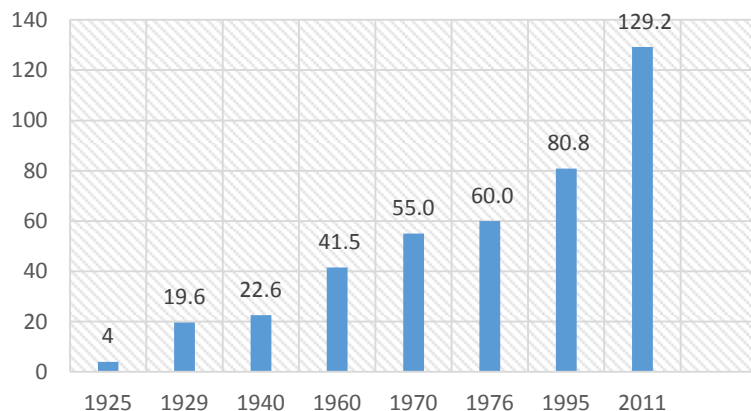


Sources: MEF, INEI, Minedu



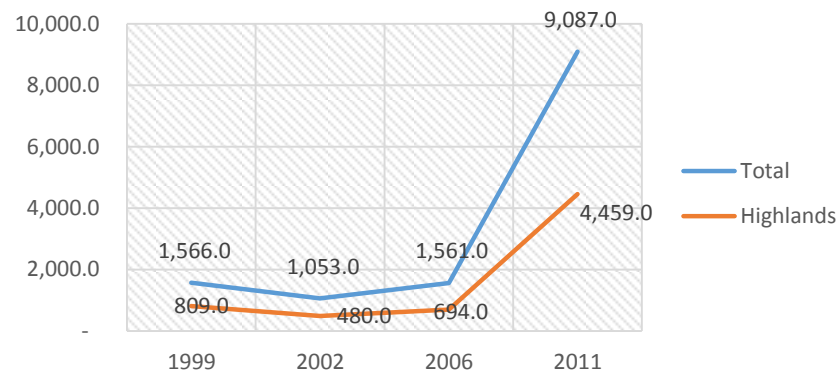
# Greater road infrastructure

## Road Network (thousands of kms)



\* Only 13% paved (2011)

## Central Government Investment in Road Infrastructure (millions S/.)



Sources: MEF, INEI, WB, MTC

## Better access to finance

- Expanding access to credit through microfinance institutions, private banks, and non conventional systems.
- State development programs (Agroideas, Foncodes, etc)



## Capacity building

- More Government investment through Programs: Prosaamer, Agroideas, Agrorural, Foncodes, etc.
- Support of private companies, investment in capacity building (Agroindustry, mining, hydrocarbons, energy).
- Support of international cooperation (USAID, GIZ, Swiss Contact, JICA, etc.)



# Real effects in small producers

- Reduced travel times, access to new and larger markets (even external)
- Reduced transportation costs
- Access to information for improved decision-making  
→ better prices
- More access to modern technologies and techniques.
- More access to funding sources, greater investment.
- Enhanced capacities



# Results from improvements

# Improvement of rural incomes and productivity

- The average annual growth rate of the rural per capita income jumped from 1.4% to 7.2%.
- Productivity in the field multiplied.
- The income growth rate for rural areas was higher than the rate for urban areas.

Total Incomes of Rural Sector					
	Index (1900=100)			Annual Increase Rate (%)	
	1900	1994	2011	1900-1994	1994-2011
Production	125	883	2,363	2.1	<b>6.0</b>
Total Income	98	1,017	2,985	2.5	<b>6.5</b>
Per Capita Income	98	351	1,148	1.4	<b>7.2</b>
Agricultural Productivity	100	198	464	0.7	<b>5.1</b>

Annual Increase of Per Capita Real Income (%)		
Area	2004-2012	
Urban	3.9	
R ural	6.8	

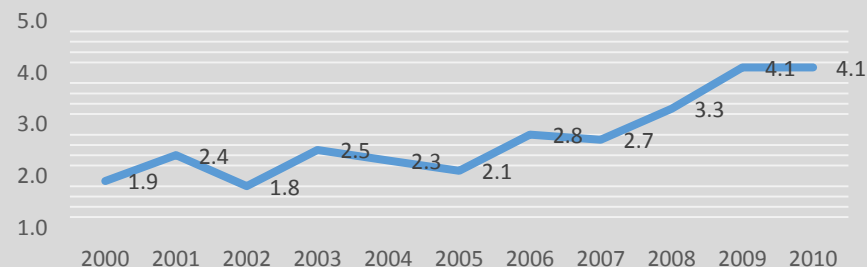
Source: Enaho



## Example of increase of rural incomes

- Potato is the main crop in poor rural areas.
- Household incomes have more than doubled in recent years.
- In 2008, a campaign launched by the Ministry of Agriculture to promote the consumption of potatoes made possible the transfer of US\$ 300 million from the cities to the rural areas.

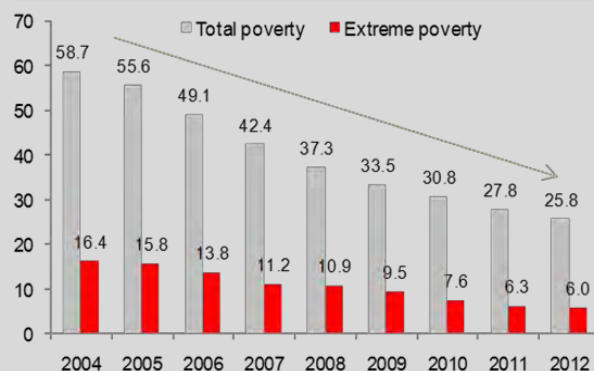
Average income of potato producer families (thousands S/.)



# Poverty and unemployment reduction

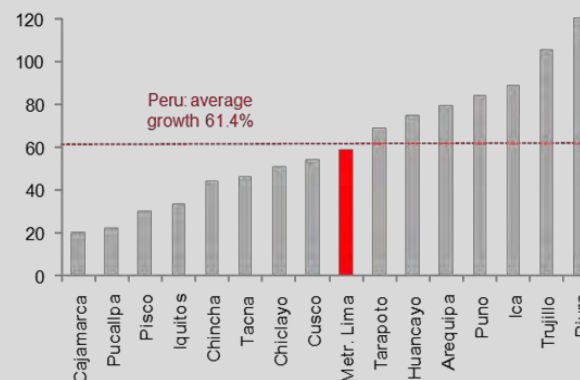
## Reduction of Poverty and Extreme Poverty

(% of population)



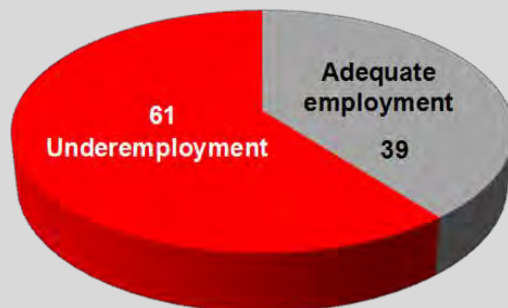
## More Decentralized Jobs

(Urban firms with 10 or more employees)  
(Accumulated % change Jan-Dec. 2012 / Jan-Dec. 2002)

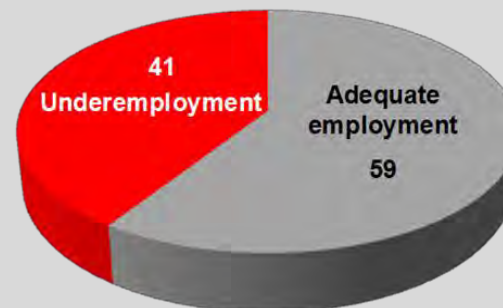


## Underemployment and adequate employment (Metropolitan Lima, % of total employment)

2002



2012



## Final thoughts

- Structural changes implemented since the early 90's paved the way for all the improvements achieved.
- The defeat of terrorism allowed public and private investments to reach the most distant and abandoned areas of the country.
- Private sector participation and international cooperation have been essential.
- Increased public and private investment in rural areas has contributed to a better infrastructure, connecting these areas to cities as well as other countries.
- It is a proven fact that economic growth is more efficient and effective than welfare programs in order to reduce poverty.
  - Between 2001 and 2010 Peru grew 50%, reduced extreme poverty in 27% and its social expenditure was 0.5% of the GDP / Brazil grew 26.2%, reduced extreme poverty in 8% and its social expenditure was 4% of GDP.

## Final thoughts

- The explosive growth of connecting means has facilitated rural take off.
- Improved connectivity and access to markets have had a significant impact on increasing productivity and incomes, as well as on poverty reduction.





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