Supplementary Report 2

Industrial Development in Peru

– Usage of Special Products Production-Concentrated Areas –

Mitsuhiro Kagami

1. What is Cluster Theory?

Among recent industrial development theories, "Cluster Theory" has newly appeared from research on industry-concentrated districts in Europe. In Baden-Württenberg in Germany, Jutland in Denmark, "Third Italy" (northeastern / central Italy versus "First Italy" in the northwest and "Second Italy" in the south), and other areas, community-like groups of family-unit small enterprises, which produce specialized products, have been formed. The appearance and development of these industrial districts that produce high-quality, export-competitive products began to attract attention from the late 1980s. They represent something that might be useful for development theory, based on actual success of several industrial districts, in comparison with a hypothesis that must be proved. Such industrial districts have the following characteristics.

(a) Specialization in a specific industry, and creation of a concentrated area in a specific district.
(b) Micro and small enterprises based on family management are the mainstay of the districts, and the production process is divided among enterprises. Cooperative relations among enterprises, in addition to competition, are close.
(c) A highly skilled labor source exists, and the enterprisers themselves have thorough knowledge about manufacturing and marketing.
(d) Well-organized (support) systems exist, such as (i) an information network among enterprises, (ii) interest-protection groups, such as labor union and manager groups, (iii) self-help-effort groups and a specific industry association, and (iv) a cooperative system by the local government.
(e) Production-concentrated areas have the aspect of establishing economic activities socially, culturally, and regionally, based on a shared sense of values, trust, cooperative spirit, etc.

Based on the analysis of such industrial districts, "cluster" can be defined. A cluster can be said to be "a geographical concentration of specific sectors by small enterprises" (Humphrey and Schmitz, 1996). In a cluster, information externality works among enterprises, and "group efficiency" is enhanced. These mean enhancement of productivity of the entire cluster, such as through an information network among enterprises, specialized production or subcontract relations for parts in the production process, and connection between such service as conveyance and delivery and different types of businesses (decrease of production / business cost). What is important here is that cluster theory comprehensively grasps groups' economic activities, instead of analysis of individual enterprises. In other words, it is neither a micro nor a macro – but rather a "meso" – level analysis as an aggregate. In the past, economic analysis on this middle form of groups has not been conducted.

Further, cluster theory, which can be useful for industrial strategy in developing countries,

includes suggestions for (a) usage of micro and small enterprises, which are common in developing countries, (b) regional development using regional distribution, and (c) improvement of productivity and technological reform, using group efficiency.

In developing countries, micro and small enterprises in the informal sector are conducting active economic activities, and they are considered to have more flexibility, adaptability, and sensitivity to market trends than might be expected. Such enterprises in the informal sector are abundantly seen in the industrial districts. There still remains a problem of how the enterprises in the informal sector should be formalized (land / company registration, taxation, etc.), but the significance of using these active micro and small enterprises for development is great. Also, in developing countries, development of local industries (production areas), such as ceramics, leather products, handicrafts, textile products, and tourism, has already been seen, and there are many districts where micro and small enterprises are concentrated, which can be called clusters. Their further usage is desired.

The geographical distribution of a cluster greatly depends on chance circumstances. For example, a district may have originally been a production area of raw materials, or European immigrants may have established a colony in a specific region, and brought with them specialized techniques. Clusters are not necessarily concentrated in or around cities, and they can serve to correct disparities of employment and income between metropolitan areas and localities through regional development.

Group efficiency, such as through information spillover and horizontal networking, has an aspect of contributing to technological progress. Process innovation (improvement of the production process) through sharing information, and product innovation (product differentiation and new product development) that responds to external changes, have high possibility of occurring through the entire group's cooperation. These are known to be further accelerated with support of local government and public research institutions.

As mentioned above, cluster theory is considered to be able to offer various suggestions for the industrialization of developing countries, especially in policy aspect (refer to Kagami, 1995, regarding the importance of micro, small, and medium enterprises in Latin America).

2. Clusters in Peru

Peru has enterprise clusters, consisting of micro and small enterprises, in 14 districts, as follows (refer to Fig. 1).

(a)	Iquitos:	timber, agricultural processing industry
(b)	Piura:	mango, lemon products
(c)	Cajamarca:	dairy products
(d)	Trujillo:	leather products, asparagus
(e)	Gamarra:	clothing
(f)	Cono Norte:	wooden furniture, leather products
(g)	Cono Sur:	clothing
(h)	Huancayo:	handicrafts, clothing, commerce
(i)	Ica:	wine, pisco industry
(j)	Cusco:	tourism, handicrafts
(k)	Arequipa:	clothing, metal processing
(l)	Puno-Juliaca:	metal processing, clothing
(m)	Ilo:	fisheries

(n) Tacna: commerce

Many of these clusters are related to availability of resources (raw material-producing area, tourism, etc.).

In particular, Gamarra in Lima city, which recently became well known, has the following characteristics.

(1) Examples of the Gamarra district

In the La Victoria region to the west of Lima city, there is a cluster consisting of about 7,000 micro and small enterprises that conducts sewing and tailor-making of apparel (refer to table 1). They range from micro stall-keepers that sell specialized products, such as threads, cloths, buttons, and zippers, to five- or six-storied buildings, called "galleria", that contain, respectively in each building, a sewing plant (clothing, T-shirts, underwear, etc.), an exhibition/ sales site, an apparel-related machinery sales / repair store, and a restaurant – in small, separate rooms. In this cluster region, there are 85 gallerias and 2,400 street stalls, producing employment for 40,000 people, and a year turnover of over 600 million dollars (Osonoi, 1995b).

As products, T-shirts are the most common, and 39% of these enterprises manufacture them; followed by knit products, at 25% of the enterprises; underwear, at 19%; jeans, at 14%; and sweatshirts, at 11%. Also, babies' clothing, uniforms, coats, and shirts, as well as cloth materials and the like, are sold. The enterprise scale is estimated to be 5.4 persons per store, on average (Villaran, 1994), indicating that the majority are micro enterprises.

This Gamarra district (named from Gamarra Street) is an area where, originally, Italian immigrants worked in the fabric industry, but it is said that because a bus terminal was located nearby, Indios from around Puno, Cusco, and Huancayo, following the trend toward urbanization, came to Lima and settled here. These Indios, from the Aymara and Quechua tribes, know the needs of their own villages, so they initially engaged in trade between Gamarra and their villages, and gradually they began to also produce and sell clothing themselves. Presently, this district is said to account for about 80% of the ready-made clothes market in Lima. Also, through Puno, exportation to Bolivia is conducted. In other words, the prosperity of this Gamarra district can be said to have resulted from the vast demand by Indios.

In the Gamarra district, producers' unions have been formed (about 30 cooperatives according to products; the Gamarra Export Consortium Association for exportation, and others exist), and a magazine entitled "Gamarra" (La Revista de los Empresarios), targeting enterprisers in Gamarra, is also published. A horizontal network among these enterprisers is gradually being formed, and the demand for fax machines and mobile telephones is increasing every year. The magazine "Gamarra" reported (Year 3, No. 37, Diciembre 1996) that a first seminar on taxation was conducted, with invitation of the director of the National Tax Agency (SUNAT) to Gamarra, in December 1996. According to the superintendent of the tax agency, Adrian Revilla, as to general sales tax (IGV, a type of added value tax), there was a 55% rate of default in paying the tax in the commercial sector, on average, for Peru nationwide, and a 53% rate of default in paying the tax in the textile sector (for example, in the case of textiles, 18% of 1,981 million sol, as annual sales, which is 357 million sol, must be paid as IGV to SUNAT, but actually only 166 million sol was paid). In Gamarra also, many enterprises are in the informal sector, and it is significant that education on land registration, company registration, and liability for taxation is conducted voluntarily through these seminars. Actually, the superintendent made a promise to establish a SUNAT office in this Gamarra district, at this seminar.

(2) Evaluation on Gamarra

Gamarra can be called a cluster because it represents a concentrated area specialized in textile products, which is the first characteristic in reference to the features indicated at beginning. As to the next characteristic, competition and cooperative relations among mainly micro enterprises, cooperative relations in particular are seen to enhance competitiveness, in order to enable exportation, in the coming two or three years, so Gamarra has this characteristic too. As to the third characteristic, skill of enterprisers, the level is still low. Though quality and the like are poor, this cluster is of the demand-response type, as it knows the market for Indios, as mentioned above. As to a well-organized support system, public support is gradually being organized, but basically, private enterprisers are taking the initiative.

Lastly, in the sense of establishing economic activities socially, culturally, and regionally, sharing of a sense of values, trust, and a cooperative spirit, centered on Indios, exist, so in this aspect also it can be said to be a cluster. As such, Gamarra is becoming better known, both domestically and internationally, as a successful cluster in Peru; however, it also has the following problems.

(a) In recent years imports of low-priced textile products from Asia, centered on China, have been increasing, and competition has been increasingly keener in the domestic market (Koreans and Chinese are also advancing into the Gamarra district).

(b) This district is behind in export competitiveness, such as in quality and design. This is OK as long as Indios, such as in Ecuador and Bolivia, are targeted, but this factor is a hindrance for advancement into other foreign markets.

(c) Though this cluster, which generated spontaneously, is energetic, the informal sector needs to be formalized in the sense of enterprise modernization, transparency of transactions, and establishment of an efficient system. As such, simplification of enterprise registration, and simplified and more efficient taxation, are unavoidable policy issues (refer to Table 2).

3. Development by Clusters

As described so far, Peru's special products-concentrated districts were formed by private initiative, without almost no public support. In terms of economic development using clusters, the following can be pointed out: creation of employment and income by clusters; development as the core of regional development; and contribution to productivity and technology using a horizontal network. However, presently, when Peru's entire industries have such problems as low technological level, low competitiveness, and delayed modernization of management and administration, not only private initiative but also supplementary support by the Government is urgently needed. Let's look at the support measures under the Fujimori Administration. Because the mainstay of the clusters is micro and small enterprises, the support measures for them are summarized here (refer to Tables 3 and 4 for the composition of Peru industries by enterprise scale).

(1) Support under the Fujimori Administration

Under the Fujimori Administration, "The Micro and Small Enterprise Promotion Law" was promulgated in November 1991. First, this law clearly defined micro and small enterprises. An enterprise with less than 10 employees and sales up to 12 times the minimum taxation unit (about 10,000 dollars in 1995) was defined as a micro enterprise. An enterprise with less than 20

persons and sales up to 25 times the minimum taxation unit (about 22,000 dollars in 1995) was defined as a small enterprise. This law also stipulated simplification of registration and authorization, simplification of the taxation system (single taxation), legal assistance, export support, etc.

The ministry of commerce and industry (MITINCI) announced full-scale micro / small enterprise support measures in 1994, which is the "micro / small enterprise program" (PPME). The aims of support are strengthening of competitiveness, promotion of exports, technological development, decentralization of power, etc. For those purposes, systematic support, financial support, and technological support are considered. Also, this project is supported by COTESU (Swiss Technical Cooperation) in Switzerland and AECI (Spanish International Cooperation Agency) in Spain, based on agreements.

(a) Institutional support

As to simplification of enterprise registration, the period from application to actual registration was shortened, and the registration fee was reduced. As to taxation, simplification, relief for micro enterprises, and other measures were considered (general income tax, special income tax, simple single tax (RUS), general sales tax (IGV), selective consumption tax (ISC), and customs are included in the present taxation system).

As to financial support, in order to promote investment by micro and small enterprises and to facilitate their financial access, establishment of a small / micro enterprise development organization (EDPYMES) was sanctioned, and convenience of financing for micro and small enterprises was promoted, by such as simplifying loan standards and necessary documents, and shortening the time taken from application to loan-granting.

For information and technical advice, general service centers (service modules), and handicraft products service centers, to meet the needs of handicraft people, were established. Furthermore, an enterprise information system (SIE) was built, and enterprise information is provided through MITINCI's branch office. As to diffusion of the subcontract system related to the parts supply chain, the subcontract-mediation organization's bolsa system was strengthened, and this system, which is established in the National Industrial Society (SNI) in Lima, Arequipa, and Trujillo, is planned to be expanded into major cities throughout Peru.

(b) Financial support

As the basic structure of financial support for micro and small enterprises, funds, from such as Development Financial Corporation (COFIDE), Microenterprise Promotion Fund (FONDEMI), National Fund for Compensation and Social Development (FONCODES), and the Inter-American Development Bank (IDB), flow into micro and small enterprises, through commercial banks, municipal saving credit unions (CMAC, 12 unions), NGOs, etc. In other words, CONFIDE, FONDEMI, FONCODES, IDB, etc., do not directly loan money to micro and small enterprises; rather there is a two-tiered structure that goes through commercial banks (two-step loans). The small / micro enterprise development organization (EDPYMES) mentioned earlier also conducts small-scale financing. As to numbers of cases, financing through municipal saving credit unions and NGOs is frequent.

Municipal saving credit unions conduct pawnshop-type financing (taking gold and silver as security; the average loan is small in scale, at 90 dollars / case), business financing (taking movable property as security; the average loan is 770 dollars / case), and individual financing (for side business conducted by public service personnel; no security is taken, but repayment of loans is

subtracted from their salaries; the average loan is 370 dollars / case). As of the end of June 1996, the effective loan achievements are 54,000 cases, totaling 39.5 million dollars. The average loan amount is about 700 dollars per case.

As to loans through NGOs, Peru Community Action (ACP) is well known. As of the end of 1995, it extended loans in 22,000 cases, totaling 8 million dollars. The loans are small-scale, amounting to 500 dollars per case on average. ACP operates only in Lima. Regarding loans through private banks, Continental Bank and Banco Wiese have a financing setup for micro and small enterprises.

In 1996, at the initiative of the Vice President, Ricardo Marquez, the MIBANCO (micro enterprise bank) idea was put forward. It was based on the successful examples of financing for micro enterprises provided by such as Banco Sol (Sun Bank) in Bolivia, Grameen Bank in Bangladesh, and BRI (Indonesia people's bank) in Indonesia; and a rapid increase of lending, such as by municipal saving credit unions, and the establishment of a similar type of banks, was considered necessary. Presently, the technical committee is studying the possibility of MIBANCO.

The Developmental Financial Corporation (COFIDE), as a type of two-tiered financing, provides funds to commercial banks as the first tier. A micro enterprise program (PROMICRO) and a small enterprise program (PROPEM-CAF) extended loans totaling 95 million dollars in 1995 for micro and small enterprises, which was equivalent to 25% of the total amount of loans procured by these enterprises. The fund source of COFIDE is a Andian Development Corporation (CAF), the Inter-American Development Bank (IDB), the Export-Import Bank of Japan, and others. COFIDE has a guarantee fund (FOGAPI) as credit guarantee, in which assistance from Holland is said to be involved.

The IDB, an international organization, provided Peru with financing and technical cooperation totaling 1,478.8 million dollars, as the outstanding base at the end of 1995 (1,443.7 million dollars as the loan outstanding). Out of this, for micro enterprises, 25 million dollars was provided to COFIDE through the "general credit program financing system for micro enterprises" that started in 1990. The IDB's funds went into micro enterprises through municipal saving credit unions, the Chamber of Commerce and Industry, and NGOs (such as Habitat Peru, and the Peru Women's Association).

(c) Technical support

Regarding diffusion of technology and vocational training, the following institutions provide various supports: (1) the Labor Social Promotion Ministry (for the low-income young class, for vocational training as a poverty measure and for women, etc.); (b) industrial technical training service centers (SENATI: having regional centers in 14 locations nationwide, providing various training courses); (c) a small and micro enterprise training center (IPACE); (d) a development engineering center (CIPDEL); (e) an informal sector development research center (IDESI: providing lectures, on such as how to access financing); and (f) an NGO consortium (COPEME: a technological transfer program), etc.

In addition, universities, such as Lima University, Catholic University, National Engineering University, San Marcos University, etc., are conducting technical instruction and consulting to micro and small enterprises. In particular, Lima University started the "small and medium enterprise general support program" with Mr. Jaime Garcia as the chairman; Mr. Garcia served as vice-minister of the Ministry of Commerce and Industry until 1996. The European Union (EU) conducts "micro enterprise programs" jointly with the Peruvian Ministry of

Commerce and Industry, and provides vocational training and technical instruction, in addition to FONDEMI's financing, in collaboration with 50 training facilities throughout the nation.

(2) Future issues

In order to develop manufacturing in Peru while using the energy of micro, small, and medium enterprises, using clusters, there are several problems to overcome in the future, as summarized below.

First, because the Fujimori Administration's economic policy emphasizes liberalization and a market mechanism, it is basically in a position to not establish industrial policy targeting enterprises in specific sectors or of specific scale. Strong promotion of liberalization would mean industrial development using Peru's comparative advantage, and as a result, processing industries of primary products (agricultural, marine, forest, and mineral products), textile industry based on Peruvian cotton and alpaca, tourism, and the service industry are prospected to be developed. This pattern is the same as that of its neighboring country, Chile, and in that sense, development of Chile can serve as an example. However, it is not that Chile has no measures for small and medium enterprises at all. In Chile, centered on CORFO (Industrial Promotion Corporation), comprehensive small and medium enterprise support measures are taken. In particular, under the Aylwin Administration (1990-1994), the "small and medium enterprise support program" was implemented, in which the conventional ideas of subsidy and interest supply were discontinued and a policy of correcting discrimination toward small and medium enterprises, covering all industries, was adopted. Specifically, the program aimed to "improve discrimination in access to each of financing, information, technology and management resources necessary for modernization, and training opportunities" (Hosono, 1995). The small and medium enterprise policy in Peru finally began to be implemented on a full scale from the Second Fujimori Administration, and it was supposed to be promoted centered on Vice President Ricardo Marquez, who himself came from a micro enterprise. As mentioned above, there are various programs for micro, small, and medium enterprises, but they are more individual, and an integrated philosophy on which those programs are based, or a comprehensive approach, is lacking. It is considered necessary to reinforce the "micro / small enterprise program (PPME)" centered on MITINCI's small and medium enterprise unit, in such aspects as system, funds, and personnel.

Second, there is an issue of formalization of the informal sector. It is necessary to consider support measures to change the negative aspect of inclusion in the tax system and reduction of income, into a positive aspect, such as market participation through real estate registration (as security or for transactions involving real estate) and expansion of access to financing and technology.

Third, products produced by the clusters in Peru are still far behind in terms of competitiveness in the world market, such as in quality, price, and delivery time. In the present situation in which some domestic enterprises go bankrupt due to the inflow of Chinese textile products and other low-price manufactured products, due to import liberalization, strengthening of competitiveness is essential. In order to increase exports, it is important to further promote development of differentiated products, quality control, management rationalization and efficiency improvement, observance of delivery period (quick delivery), etc.

Finally, development of clusters provides their home regions with opportunities for income and employment, and the clusters become the core of regional development. An efficient industrialization strategy for correction of regional disparity is to develop already existing

clusters and make them grow into export industries. In order to create products using local characteristics, important needs are competition and cooperation among enterprisers, managers' organizations / cooperatives, usage of subcontracts, and industrial support measures by central and local governments, especially improvement of financial access, technical instruction, and support for vocational training. (In this regard, introduction of Japan's public research institute system – a national system of 176 industrial research institutes, run by local public organizations -- is considered to be suggestive for Peru.)

References

Osonoi, Shigeo (1995a), *"Peru no Keizai Hatten to Cyusho Reisai Kigyo"*, *Chunanbei Chiiki niokeru Cyushokigyo no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*, Japan Economic Foundation (June, 1995)

Osonoi, Shigeo (1995b), *"Fuji Shock: Nikimeno Fujimori Seikento Nihon no Kadai"*, *AjikenKinkyuReport*, Institute of Developing Economies (August 1995)

Kagami, Mitsuhiro, *"Soron"*, *Chunanbei Chiiki niokeru Cyushokigyo no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*, Japan Economic Foundation (June 1995)

Hosono, Akio, *"Chili no Cyushokigyo no Genjo to Cyushokigyo Taisaku"*, *Chunanbei Chiiki niokeru Cyushokigyo no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*, Japan Economic Foundation (June 1995)

Takebe, Noboru, *"Peru no Gamarra nitsuite"*, *Chunanbei Chiiki niokeru Cyushokigyo no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*, Japan Economic Foundation (June 1995)

John Humphrey and Hubert Schmitz, "The Triple C Approach to Local Industrial Policy", World Development Vol. 24, No. 12, 1996.

Fig. 1. Clusters in Peru

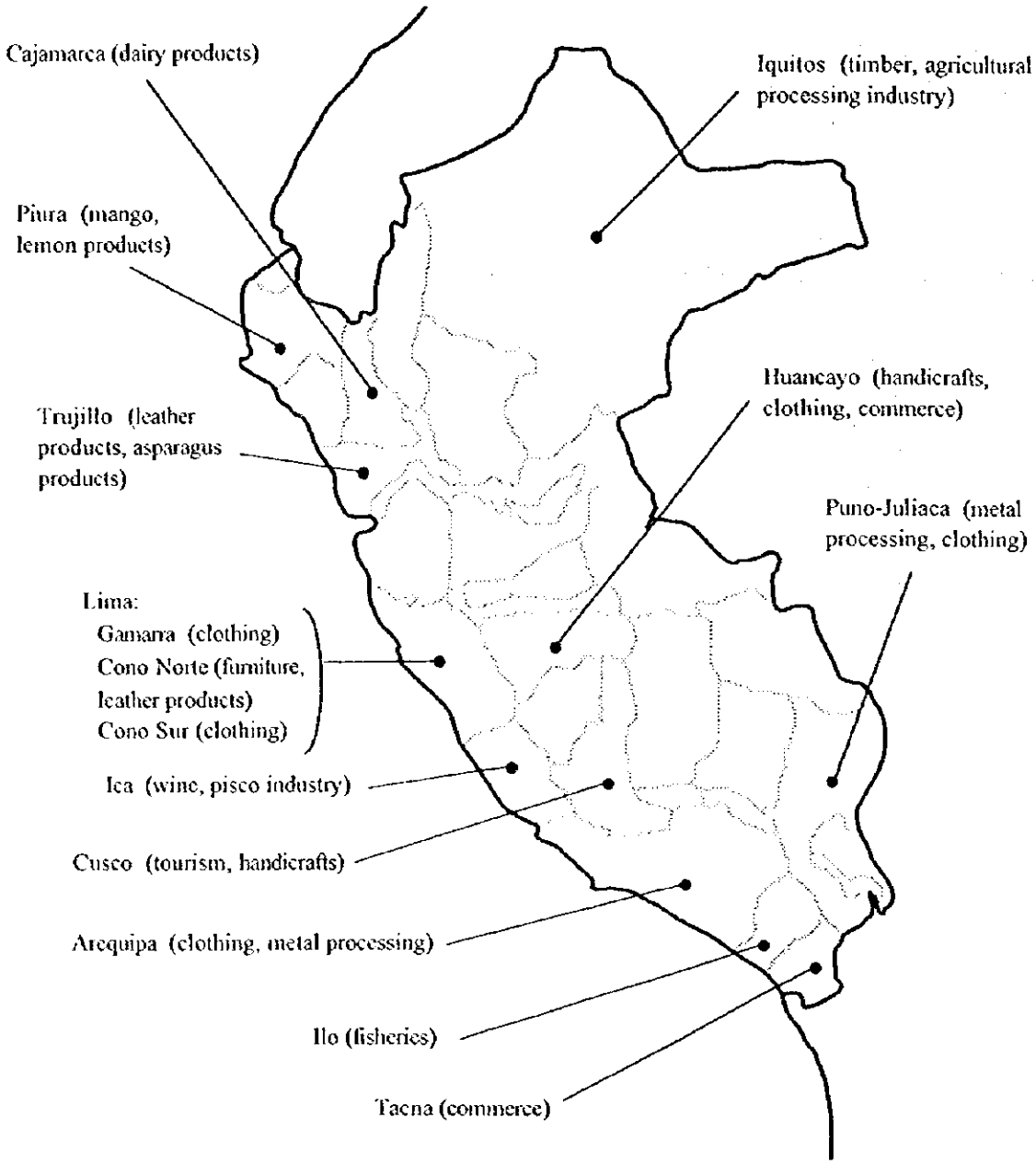

Table 1. Characteristics of Stores in Gamarra

Store type	Number of stores	Characteristics	Avg. number of employees (persons)	Total number of employees (persons)	Sales per store (sol)	
					Daily average	Yearly average
Manufacturing	50	Medium scale	50 or more	3,000	2,500-3,000	756,000
	450	Small scale	11-49	13,500	250-400	78,000
Manufacturing, sales	1,500	Micro stores, work sites	1-5	4,500	100-300	48,000
Sales of materials and products	100	Medium scale,	3-7	500	1,500-2,000	420,000
	2,000	Small scale,	3-6	9,000	350-600	114,000
	2,000	Micro scale	1-2	3,000	200-350	66,000
Stores	133	Gallery	6-8	931	150-200	42,000
	300	Restaurant	2-4	900	25-100	15,000
	150	Sales, repair of machinery and tools	3-7	750	50-150	24,000
	20	Banking facilities	7-13	200		
	100	Others	2-5	350	50-400	54,000
Total	6,803		39-106	36,631	5,175-8,300	565,986,000

(Source) Takebe 1995

Table 2. Distribution of Informal Business Establishments in Lima (1995)

(%)

Sector	By scale (number of employees)			
	Total	1-2 persons	3-4 persons	5-10 persons
Manufacturing industry	10.0	7.9	26.6	43.3
Construction	7.7	7.6	8.1	10.4
Commerce	52.7	55.0	33.8	23.9
Transportation	10.8	10.7	13.0	3.0
Service	18.8	18.8	18.5	19.4
Total	100	100.0	100.0	100.0
Number of business establishments	4,295	3,882	346	67
(%)	(100.0)	(90.4)	(8.1)	(1.5)

(Source) Survey by the Institute of National Statistics and Information (INEI)

Table 3. Composition of Industries in Peru by Scale (1987)

	Scale (persons)	Number of enterprises	Number of employees (%)	Informal (%)	Formal (%)	Avg. number of employees (persons / enterprise)
Manual industry	1-8	55,000	165,000 (22.9)	115,000 (37.4)	49,500 (12.1)	3.0
Micro enterprise	1-4	84,268	210,670 (29.3)	152,670 (49.4)	58,000 (14.1)	2.5
Small enterprise	5-19	17,125	137,000 (19.0)	41,000 (13.3)	96,000 (23.4)	8.0
Medium enterprise	20--199	2,311	115,230 (16.0)	--	115,230 (28.1)	49.9
Large enterprise	200 or more	206	92,000 (12.8)	--	92,000 (22.4)	446.6
Total		158,910	719,900 (100.0)	309,170 (100.0)	410,730 (100.0)	4.5

(Source) Osonoi, 1995a

Table 4. Number of Small Enterprises in the Lima Metropolitan Area (1992)

	Number of enterprises	(%)	Number of employees (persons)	(%)	Avg. number of employees (persons)
Commerce	516,779	66.7	788,041	59.2	1.52
Manufacturing industry	73,453	9.5	173,066	13	2.36
Service	88,977	11.5	198,120	14.9	2.23
Transportation	29,234	3.8	40,004	3.0	1.37
Construction	43,708	5.6	72,110	5.4	1.65
Others	22,908	2.9	59,576	4.5	2.6
Total	775,059	100	1,330,917	100	1.72

(Source) Osonoi, 1995a

References

Osonoi, Shigeo(1995a)" Peru no Keizaihatten to CyuusyoReisai Kigyo", Japan Economic Foundation, *Chunanbei Chiiki niokeru Cyushokigyo no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*

Osonoi, Shigeo ed.(1995b) *Fuji Shock: Nikime no Fujimori Seiken to Nihon no Kadai*, Ajiken Kinkyu Report, Institure of Developing Economies

Kagami, Mitsuhiro(1995) "Soron" , Japan Economic Foundation, *ChunanbeiChiikiniokeruCyushokigyonoGenjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*

Hosono, Akio(1995) " Chili no Cyusyokigyo no Genjo to Cyusyokigyo Taisaku", Japan Economic Foundation, *Chunanbei Chiiki niokeru Cyushokigyo no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*

Takebe, Noboru(1995)" Peru no Gamarra ni tsuite", Japan Economic Foundation, *Chunanbei Chiiki niokeru Cyushokigyo no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*

John Humphrey and HubertSchmitz(1996)," The Triple C Approach to Local Industrial Policy" *World Development*, Vol.24, No.12

Supplementary Report 3

The Present State of Peruvian Education and Its Problems

Yasuo Saito

Introduction

On July 28, 1995, at the start of the Second Fujimori Administration, President Alberto Fujimori made the following comment regarding education in his inauguration speech.

> Improving the quality of education in the nation was a major concern of my former administration. And the new administration will continue this, because we believe education for every citizen is the foundation of equality. Our crusade for education has begun. It will, in the medium term, eliminate such present conditions as classrooms whose walls are screens made of marsh reeds, teachers whose methods are outmoded, undernourished children attending schools, and education content that is not related to the reality of our society or to our needs to seek economic growth and human development. We have built 52,000 classrooms for 2 million children so far, and in the next five years we plan to build classrooms for at least 3 million more children. We must redouble our efforts to rapidly improve the quality of education. We have dedicatedly invested in the infrastructure of education, and with the same dedication we must also invest in every other component of our education system (Expreso 29 de Julio de 1995).

Though not many words, the above directly expresses the achievements the Fujimori Administration has made in the field of education since it began in 1990, as well as what could not be accomplished, and the resulting political issues that were carried over to the second administration. When the 1980s – the so-called lost decade – ended, what was the situation of Peru's education? What does "improvement of the quality of education" (mejorar o elevar la calidad de la educación), which is the main issue in educational policy in the 1990s, mean?

This report aims to clarify the present situation of education in Peru and the issues to be reformed. Here, I will (1) outline the development history of education in Peru over the past 30 years, since the 1960s, (2) evaluate the first Fujimori Administration's efforts to reconstruct education since 1990, (3) statistically outline the present situation of education and its problems in Peru, as of 1993, and, lastly, (4) analyze priority issues in the education policy in the basic strategy of education reform presented in the Second Fujimori Administration. First, I will look back to the 1960s to trace the history of education in Peru, because I think it is important to clarify large-scale changes, interruptions, and the sequence of education policy, including the trial of radical educational reform under military rule in the 1970s.

1. Development of Education in Peru

It was after the 1950s that Peru's educational system began to be organized as a modern national education system. The education system was based on six years of compulsory primary education, and five years of secondary education. At that time, however, the educational institutions that could provide six years of primary education, and secondary education, were limited to urban areas, such as the large cities in each department. In rural areas

and remote locations, most schools had only one teacher who provided only two or three years of primary education. And there were large disparities in educational opportunities among regions and socioeconomic classes.

In the 1960s, the quantity of education-delivery was expanded. Centered on the urban middle class, the recognition that education is an important means for social advancement began to be strengthened, and people began to more strongly demand, toward the Government, expansion of educational service. At that time, such international organizations as UNESCO and the United Nations Economic Commission for Latin America actively advocated education planning theory and human resources theory, which also boosted this tendency. In particular, quantitative expansion of education under the First Belaúnde Administration period (1963-1968) was remarkable. In 1963, immediately after his inauguration, President Belaúnde issued the "Tuition-free Education Law" and Presidential Decree No. 89. The latter, dealing with reform of the primary education system, systematically integrated primary education, which was classified into two types: complete primary school (which provided classes up to 6th grade) and incomplete school (classes up to only 3rd grade), to enable children, even in incomplete schools, to take classes for six years. A problem with incomplete school was that, soon after students finished it, they returned to being illiterate. According to the free education law, the principle of a tuition-free system of public secondary educational institutions was established. The number of students enrolled at schools rapidly increased, exceeding by far the rate of population increase – the annual average increase rate for primary education was 6%, and that for secondary education was 15.3%. The Government's educational budget was also largely expanded. In 1966, education expenses were equivalent to 26.5% of the total national budget, or almost 5% of the gross national product. These rates were the highest in Latin America at that time, and they equaled the rates of industrialized countries (Cardó, p. 74).

In October 1968, the military administration led by General Juan Velasco, which overthrew Belaúnde in a coup d'etat, came into power. The left-wing Velasco Administration, which professed itself as a "revolutionary government," promoted a series of radical reforms, such as drastic agrarian reform; nationalization of basic industries, such as petroleum, electricity, mining, and railroads; a laborer protection policy; and participation by laborers in enterprise management. The administration also severely criticized conventional education and started large-scale educational reform based on the slogan "fostering of new Peruvians for a new Peruvian society." Education was positioned as the means to support and strengthen structural reform. Education for cultivating the labor force, diffusion of wider education, including Indian residents and poor children, who had been conventionally ignored, and education aimed at "awakening people's political consciousness," were emphasized. This concept of "consciousness-creation" (concientización) is based on the education theory put forward by Paulo Freire in Brazil, and it was defined as "the process of education to make individuals and social groups acquire a critical consciousness toward the historical and cultural world in which they themselves live; and to make them take action needed to reform problems of this world based on their own responsibility," presenting strong ideological inclination.

The idea of "Educational Reform" (Reforma Educativa) by the Velasco military administration was expressed in the "General Education Law" (Law No. 19326) promulgated in 1972. This law, first, largely reformed the educational system. It established a nine-year free compulsory basic education system, by taking away, from secondary schools, the first three years of conventional secondary education, and combining that three years with six years of primary education. The remaining later years of secondary education were incorporated into newly established educational institutions strongly oriented toward technical education, which

were called "higher technical education schools" (ESEP). In addition, in the 1972 Education Law, the administration put forward such aggressive measures as the following: centralization of education, participation of parents and regional residents in education management; usage of the Quechua language as a teaching language, which had been prohibited since the colonial period; adoption of an automatic grade-promotion system, which eliminated repetition of school years; expansion of adult education; introduction of integrated literacy education that combines literacy education and political consciousness-creation; and promotion of special education.

However, this educational reform, which attracted attention of the international education world, faced large-scale difficulties in the process of realization. The authoritarian, impetuous educational reform by the military administration was rejected and resisted by teachers – the actual deliverers of education. Participation of parents and regional societies in school management also often caused confusion. Control of education by the State and strengthening of intervention in private schools gave rise to complaints and anger from Catholic private schools. Also, conservatives within the military were strongly concerned that education aimed at developing political consciousness would invite the popularization of communism (Ohgushi, p. 283). A more decisive factor was lack of support by the educational budget that was required for large-scale system reform, such as extension of compulsory education, and the foundation of a new type of higher technical education schools. Despite great expectations, which could even be said to have been excessive, that the military administration had for educational reform, priority was not necessarily given to the educational budget. The educational budget, which had reached its peak at 25% of the central Government's expenditures, or 5% of the gross national product, under the previous administration, decreased to, respectively, 18.2% and 3.8% as of 1975. Even during this period, the number of students enrolled in the national education system continually increased, at a rate exceeding the rate of population increase, but the increase rate was lower than during the previous administration, for both primary and secondary education (Cardó, p. 116).

Soon the trend toward socialism strengthened, and criticism increased toward the expanding government budget deficit and the increased external debt through the State-led-type economic management. In August 1975 the Velasco Administration collapsed, due to political changes within the military, and the Francisco Morales Administration emerged as a second period of military administration. Accompanying that, a review of the educational reform initiated by the previous administration was started. The activities of the National La Cantuta Education University, which was regarded as a Marxist base, were stopped. The new administration carried out a financial retrenchment policy for economic reconstruction, and continually reduced the working budget of the Education Ministry. Partly due to financial difficulties, reform of the school system, which was planned to be shifted to a new system from the new year, was put on hold, and in reality, there was continual confusion due to the presence of both new and old educational systems. Problems that became more serious in the 1980s, such as a shortage of teaching materials, reduction of real salaries of teachers, and an increasing number of undernourished children, began to appear. Between 1975 and 1980, the annual average rate of increase in the number of students receiving primary education was only 1.7%, which was less than the rate of population increase.

Palomino, who wrote a history of education in Peru from the viewpoint of a Catholic church-member, evaluated the educational reform in 1972 as follows: "Various positive aspects became negative due to poor management and radicalism, and the reform ended in failure because it was too messianic, Utopian, and instituted excessively from the top" (Palomino, p. 75).

In 1980, transfer of control to civil administration was realized, after an interval of 12 years, and Belaunde returned as President, based on an election. Along with his reappearance the

"educational reform" under the military administration was abolished. Belaunde abolished the 1972 Education Law, and issued a new "General Education Law" (Law No. 23384) in May 1982. The mainstay of the system was a return to six years of compulsory primary education and five years of secondary education, as had been established before the military administrations. Higher technical education school, which was a symbol of educational reform in the period of military administration, was converted to higher-level, technical education institute. The ideological inclination of the educational policy became weaker, and emphasis was again placed on quantitative expansion of education and on decreasing the illiteracy rate, rather than on reform. Between 1980 and 1985, the growth rate of the number of people enrolled in the entire education system again began to exceed the rate of population increase. In 1985, primary education came to cover 95% of the age class concerned, and secondary education also had an annual average increase rate of 4.1% (number of persons enrolled), and the increase continued.

However, although Peru was led by the same President Belaunde, the situation was different from that during his first administration. Economic crises in the 1980s, such as sluggish economic activities, a declining business situation, aggravation of inflation, pressure from external debt, and an increased rate of unemployment, began to appear. The government budget for education was lowered, in 1985, to almost half of that of the first administration period; the new level was 12.3% of the national government expenditures, or 2.5% of the gross national product. The dilemma of rapid quantitative expansion of the entire educational system with a reduced budget, seriously influenced the quality of public school education.

In 1985 the Alan García Administration, of the left-wing, nationalistic APRA Party, came into power. However, isolation from the international financial world due to one-sided restriction of paying off external debt, under radical nationalism, and the results of a populist-like policy of distributing resources, made the economic crisis even more serious. Confusion in the Peruvian social economy reached a peak with the progress of hyperinflation, which reached four figures annually; expansion of absolute poverty; deterioration of public peace by terrorist activities, such as by "Sendero Luminoso"; and enlargement of the bureaucratic system and prevailing corruption, due to partisan personnel management. Under the García Administration, intention to institute educational reform was repeatedly expressed in the form of reports by the Education Ministry. In the reform plan, the present educational system was criticized as "reproducing imperialism," and the plan had a strong ideological feature, saying that the basic purpose of education was to form a "historical national consciousness." Also, an educational system reform plan, which was similar to the educational reform under the Velasco military administration, was presented. In February 1989, at the end of the administration, a new bill for the "General Education Law," focused on switching to a ten-year basic education system, was introduced to the Diet, but the bill was shelved as the García Administration was losing its ability to govern. Between 1985 and 1990, the number of students enrolled at schools leveled off in primary education, and it expanded at an annual average rate of 3.5% in secondary education. This meant further deterioration of the already poor and low-quality education.

In particular, we will take a look at the influences that economic crises in the 1980s had on education in Peru. As the real educational budget was reduced, the rapid increase of the number of students enrolled in schools largely lowered the amount of real public educational expenditure per student. According to data of the Central Bank, the real expenditure per student increased – considering the amount in 1970 as 100 – to 107.1 in 1975, but in 1976 it began to decrease, and it rapidly decreased to 98.3 in 1980, 76.6 in 1985, 48.5 in 1988, 34.6 in 1989, and 21.1 in 1990 (Foro Educativo, p. 50). Also, 95% or more of the educational budget was used for teachers' salaries, so a budget reduction remarkably lowered real salaries for teachers. A survey revealed

that the teachers' salary was significantly reduced: Considering the salary in 1979 as 100, it dropped from 230.1 in 1965, and 140.7 in 1971, to 68.7 in 1983, 25.3 in 1989, and finally to 8.0 in April 1991 (Trahtemberg, p. 154). Of course, such a trend diminished the attractiveness of teaching as an occupation, and many teachers left the profession, seeking higher incomes elsewhere. The rate of qualified teachers with proper certificate among public school teachers was as high as 80% in 1980, but after that the rate rapidly lowered, to be 49.5%, or less than half of all teachers, in 1990. Even just from 1989 to 1991, 52,400 qualified teachers left the profession, and they were replaced by 45,000 unqualified teachers (Trahtemberg, p. 155). Further, strikes by teachers, teacher absences without notification, and teachers working side jobs also increased.

Terrorism, which was rampant in the 1980s, did not leave the field of education unaffected either: Some universities and teacher-training institutions were controlled by extreme-leftist professors. In rural areas, many teachers with extreme-left ideas were hired, due to the shortage of qualified teachers, and some teachers who did not agree with such ideas were fired or even killed. It is reported that 104 teachers were victimized by terrorism from 1980 to 1991(Palomino, p. 69).

2. The First Fujimori Administration's Educational Policy

Amid such circumstances, the Fujimori Administration came into power in July 1990. Mr. Fujimori's previous post was rector of the National Agricultural University, and until immediately before assuming the presidency, he was also chairman of the National Universities Association. Therefore, he was cognizant of the situation in the educational world, to some degree. However, in the early 1990s, while he was extremely busy trying to stabilize the macroeconomy, deal with inflation, and take measures to combat terrorism, in order to handle Peru's unprecedented political and economic crisis, Fujimori's educational policy was not necessarily consistent.

In May 1991, privatization of public education institutions was tried, in accordance with Law No. 699. The attempt was to "transfer the usage" of public education institutions to private organizations, religious groups, parents' associations, cooperatives, and corporations that were regarded as having abilities to administer and manage schools, in order to enhance the quality of education. In actuality, however, the usage right of schools was transferred to the private sector in only very few cases, and this law was abolished in December of the next year, 1992. In November 1992, Law No. 26100 and Law No. 26012 were promulgated, one after the other. The former law aimed to decentralize administration and management of education by the Government by transferring it to local self-governing bodies (municipalización). The latter law was to change the educational finance procurement method to achieve such decentralization, to the method that directly sends funds to local self-governing bodies from the Economic Finance Ministry according to the number of students registered in respective self-governing bodies, and at the same time, respective self-governing bodies were also expected to procure their own funding. However, application of these two laws was also stopped the next year, and in 1994 they were abolished. In only the first two years of the Fujimori Administration, four different persons held the post of Education Minister.

On the other hand, around 1993, when the political and economic reconstruction measures began to take effect, a slightly positive attitude started to be seen also in the educational policy. President Fujimori made the following declaration at the start of fiscal 1993.

"We know how important education is for the nation. We also recognize the serious defects that frustrate students and teachers, and that as a result affect the future of Peru. We cannot continually postpone solving our educational problems. This is even more true now that we have begun to tackle comprehensive national modernization. If we want to change Peru into an energetic modern nation, we must first start with our children and young people. 1993 is the "year of modernization of education" (el Año de la Modernización Educativa). We must be pragmatic. I started with rebuilding schools whose walls and ceilings were screens made of reeds, into decent-looking schools made of good construction materials, with comfortable environments. Presently, we need 30,000 more classrooms, and the majority of existing schools are worn out, due to delayed repairs. I have tackled the work to build one or two schools every week -- just to meet the need caused by the rapid increase of the school-age population."--- Presidencia de la República, p. 272).

First, under the theme of "modernization of education," the establishment of school infrastructure was considered to be the top priority issue. In fact, in 1993 and 1994, considerable progress was made in establishing the school infrastructure. The "National Institute for Education / Health Facilities" (INFES), under the jurisdiction of the President's Office, promoted school construction, repair of worn-out school buildings, and allocation of teaching tools. The schools built or repaired, under direction of the President, were often called "Fujimori schools." Also, the President issued the "Education Ministry Organization Law" (Law No. 25762), as a part of administrative reform, in October 1992, and put forward bold measures to restructure the Education Ministry itself, by firing three-fourths of its clerical staff.

On the other hand, the Democratic Constituent Congress, newly summoned after the "self-coup," promoted revision of the 1979 Constitution, and in August 1993, the draft bill of a new constitution was adopted. This bill was approved by a national poll, and the 1993 Constitution took effect on December 31. The new constitution stipulated main education-related provisions as follows.

Article 13. The aim of education shall be integrated character development. The Government shall acknowledge educational freedom and guarantee it. Parents shall be obligated to have their children receive education, and they shall have rights to select educational institutions and participate in the educational process.

Article 16. The education system and education structure shall both be decentralized. The State shall coordinate educational policy, and stipulate the general standards of educational policy and curriculum, and the minimum requirements for the facilities of educational institutions. The State shall supervise their performance and the quality of education. It is the State's duty to assure that no one should be precluded from an opportunity to receive appropriate education, due to his or her economic situation or a physical or mental handicap. The budget for education should be given priority in the State's ordinary expenditures.

Article 17. Preschool, primary, and secondary education shall be compulsory. Education by national institutions shall be free. ---

The Government shall guarantee the eradication of illiteracy, and it shall promote bilingual and multicultural education, according to the features of respective

regions. It shall promote national integration while maintaining cultural and linguistic diversity within the nation.

Article 18. --- A university is a community of professors, students, and graduates ---. Each university has autonomy in legislation, administration, education and study, management, and economy. A university is managed based on its proper statute within the framework stipulated by the Constitution and laws.

In the 1982 Education Law, Peru's compulsory education was only six years of primary education, but the new Constitution extended this to include preschool education, and further, secondary education. As a reference, among Latin American countries, the term of compulsory education is extended to the level of secondary education in Mexico, Venezuela, Argentina, Uruguay, and others, but in all of such countries it is only at the lower-secondary-education level. Secondary education in Peru is basically a consecutive five-year system, including upper secondary education. As to the regulations making preschool education compulsory, there is almost no former example in Latin American countries. In response to promulgation of the new Constitution, the work of clarifying priority issues of educational reform in Peru and elaborating the development plan of Peruvian education from a long-term perspective, started within the Education Ministry from around 1994. As of October 1994, a document (final draft) entitled "Long-Term Education Development Plan 1995-2010" was prepared. The targets of the education sector by 2010 are the following four points:

(1) Large reduction of the illiteracy rate
(2) Establishing universal access to preschool, primary, and secondary education
(3) Improvement of the quality of education
(4) Equalization of opportunities to acquire educational service

What attracts special attention is that it is specifically stated, regarding the target of improving the quality of education, that "primary school graduates are required, as the minimum achievements, to have mastered permanent reading and writing ability and basic mathematics ability." Conversely speaking, it indicates that the Education Ministry itself acknowledges the painful truth that, presently, even persons who have completed primary education do not have assured mastery of such basic abilities, due to the poor quality of education. It was declared that three targets: quality, efficiency, and equity, would be pursued. In order to achieve the three targets, the following were stipulated: (1) improvement of learning, (2) expansion of educational service, and (3) establishing a strategic route for modernization of educational administration. Further, sub-programs were determined, as Programs I and II, to be carried out in the respective fields of preschool education; primary, secondary, and vocational technical education; literacy education, teacher training, and educational administration.

In parallel with such an educational development project, the Government began to request fund aid for projects in the educational field toward international financial and assistance institutions, at the opportunity of Peru becoming once again accepted into the international financial world on a full scale. In 1994, the Government applied for financial support for an "primary education quality improvement project" toward the World Bank, and the application was accepted. This large-scale project, which will receive 146.4 million dollars during the five years from 1995, is centered on promoting construction and repair of school buildings, mainly in the 13 departments where school infrastructure is to be established; curriculum reform; distribution of one integrated textbook (all subjects integrated into one textbook) and a workbook to every child, large-scale training for teachers and principals; rationalization of educational administration, and construction of a nationwide student's achievement-evaluation system

(IBRD, pp. 13-26). In parallel with this, the Government asked the Inter-American Development Bank for financing to expand preschool education, improve secondary education, reform vocational and technical education, and strengthen the Education Ministry's planning capacity, and the request was accepted.

3. The Present State of Education in Peru

Outlined here are the present situation of, and some aspects of problems related to, education in Peru, based on mainly the Education Ministry's latest "School Census 1993," and the census data. The recent census revealed that the illiterate population (persons who cannot read and write), in terms of adults (age 15 or older), totals about 1,785,000 persons, as of 1993, which represents 12.8% of all adults. By gender, the number of illiterate men is 487,000, and that of illiterate women is 1,297,000, showing that, overwhelming, more women are illiterate than men. Thus, the illiteracy rate is much higher for women, at 18.3%, than for men, at 7.1%. There is a large regional disparity in the illiteracy rate. In the three departments of Apurímac, Ayacucho, and Huancavelica, which are in the southern part of Sierra (the Andes mountain region), the illiteracy rate of residents exceeds 30%. On the contrary, in each department of Lima, Callao, Arequipa, and Ica in Costa (the coastal region), the rate ranges between 4 and 7%. The illiteracy rate has steadily dropped, from 38.9% in 1961, to 27.5% in 1971, and to 18.1% in 1981. For the last 22 years, since 1981, however, it dropped by only 5.3%. Due to the population increase during this period, the absolute number of illiterate people has hardly changed in these 22 years (INEI, p. 23).

Table 1. Educational Institutions and the Number of Students Enrolled at Schools in Peru, 1993

Level, form	Total (schools)	Percentage of public schools	Total of students enrolled at school (persons)	Percentage of students enrolled at public schools
School education form	51,724	79.9	7,109,559	84.0
Preschool education	11,838	70.2	590,053	79.6
Primary education	30,244	86.6	4,040,329	87.9
For youth	29,615	86.4	3,976,693	87.8
For adults	625	95.8	63,636	94.9
Secondary education	7,305	74.9	1,916,364	84.5
For youth	6,532	72.7	1,747,716	83.4
For adults	773	94.6	168,648	95.6
Non-university-type higher education	656	57.8	301,705	64.5
Teacher training	184	64.7	119,210	84.5
Higher technical education	440	51.8	174,099	48.9
Art education	32	100.0	8,396	100.0
Special education	347	80.4	21,728	79.9
Vocational education	1,338	53.0	239,380	48.1
Non-school education form	15,243 cases	98.2	361,489	92.3
Preschool education	14,738 cases	99.5	307,238	99.2
Primary education	227	79.7	14,972	88.0
Secondary education	194	31.9	31,222	27.2
Vocational education	84	82.1	8,057	87.8

Source: Prepared based on Ministerio de Educación, Censo Escolar 1993. 1995 p. 34, p. 99

Table 1 shows the educational institutions, the number of students enrolled at respective institutions, and the respective ratios of public institutions. In both primary and secondary education, almost 85% of students are enrolled at public institutions. As to the gender ratios of students enrolled at primary education and secondary education for youth, the rates for boys are 51.4% for primary education and 52.4% for secondary education, indicating almost no gender gap. As of 1993, the rate of children enrolled at schools, for children of ages 6 to 11, which is the age class for primary education, was 87.3% overall (87.7% for boys, 86.8% for girls). The illiteracy rate is 12.7%. But this figure needs some consideration. As to the age of entering primary school, it is regulated to be children who have passed their 6th birthday by March 31, but this legal age is not well observed. Looking at the actual ages of children who entered the first grade of primary education in 1993, the rate of children of age 6 was only 67.3%, and that of older children, who were delayed in entering, was 25.6% (16.4% for age 7, 5.1% for age 8, 2.0% for age 9, and 2.1% for age 10 or older). The rate of those who were delayed in entering school is higher in rural areas, and in particular the rates in the two departments of Huanuco and Ayacucho exceed 40%. On the contrary, 7.2% of students enter primary school at age 5. The reason for this is assumed to be the defective state of preschool education.

Table 2. Rates of Students Advancing to Higher Grades, Students Repeating the Same Grade, and Students Leaving School (1992, 1993)

Level	Total	1st grade	2nd grade	3rd grade	4th grade	5th grade	6th grade
Overall primary education students	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Students promoting to higher grades	78.6	65.1	77.2	79.2	84.3	85.3	90.8
Students repeating the same grade	15.5	27.7	17.6	15.0	10.2	8.4	4.1
Students leaving school	5.9	7.2	5.2	5.8	5.6	6.3	5.1
Overall secondary education students	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-
Students advancing to higher grades	82.1	76.0	81.2	82.3	85.9	88.7	-
Students repeating the same grade	10.1	16.6	10.2	9.0	6.4	4.6	-
Students leaving school	7.8	7.4	8.6	8.7	7.7	6.7	-

Source: Prepared based on Ministerio de Educación, Censo Escolar 1993. 1995 p. 151, p. 155

Next, we will look at the internal efficiency after entering school, which means the states of advancing to higher grades, repeating the same grade, and leaving school. Table 2 indicates the rates of students promoting to higher grades, those repeating the same grade, and those leaving school in each grade, in 1992 and 1993. In order to advance to a higher grade in primary school, a student must achieve a certain level of accomplishment (11 points or more, on average, out of 20, and also passing evaluation in language and arithmetic), and failure in four subjects results in repeating the same grade in secondary school.

For primary school, 78.6% of the children in all grades who attended school in 1992 advanced to higher grades in 1993, but 15.5% repeated the same grade, and 5.9% left school. The rates of advancing to higher grades are 83.6% for public schools in urban areas, 67.8% for public schools in rural areas, 93.6% for private schools in urban areas, and 84.8% for private schools in rural areas. There is considerable disparity between private schools in urban areas and public schools in rural areas. According to grades, the rate of repeating the same grade is the highest in the first grade, at 27.7%, indicating that one out of four children repeats the same grade. Repeating the same grade tends to decrease as grades get higher. As such, because of repeating the same grade, in addition to the wide range of ages when entering school at the beginning, there is considerable divergence between children's ages and the grades they are in. Table 3 reveals this actual state in primary education.

As to the distribution of the number of students in primary school by grades, the lower the grade is, when the rate of repeating the same grade is high, the overall number of students is higher, and as the grade gets higher, the number gets smaller. The number of children in 6th grade is almost half of that in 1st grade. Regarding the age range by grade, 53.8% of the students in 1st grade are six years old, which is the legal standard age, 22.5% of the students are one year older, due to delayed entering or repeating the same grade, 9.9% are two years older, and 4.3% are 3 years older. In the second grade or higher, the rates of children at the legal standard ages are below 40%, and the rate of children that are two or more years older than the legal age increases as grades get higher.

Table 3. Distributions of Children Enrolled at Primary School by Grade and Age (1993)

Total	1st grade	2nd grade	3rd grade	4th grade	5th grade	6th grade
3,913,601 persons	917,485	723,551	650,476	583,795	546,613	491,681
(Grade distribution)	(23.4%)	(18.5%)	(16.6%)	(14.9%)	(14.0%)	(12.6%)
(Age distribution)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Age 5	5.2	0.0	0.0	0.0	0.0	0.0
6	53.8	5.8	0.1	0.0	0.0	0.0
7	22.5	39.8	6.0	0.1	0.0	0.0
8	9.9	23.9	36.1	6.8	0.1	0.0
9	4.3	13.6	21.9	34.9	6.9	0.1
10	2.2	8.0	14.7	22.2	36.1	6.7
11	1.0	4.2	9.0	14.1	21.5	37.2
12	0.6	2.4	5.8	9.8	14.6	23.1
13	0.3	1.3	3.4	6.1	9.8	14.8
14	0.1	0.6	1.6	3.3	5.7	9.0
15	0.1	0.2	0.8	1.6	3.0	5.1
16		0.1	0.3	0.7	1.4	2.5
17			0.1	0.2	0.5	1.0
Age 18 or older				0.1	0.3	0.5

<Source> Prepared based on Ministerio de Educación, Censo Escolar 1993. p. 135, p. 137

This situation means that, nearly, only one out of three children completes primary school without repeating the same grade, even if children enter school at the legal standard age of 6. Most early dropouts, in addition to those who do not go to school at all, are likely to become illiterate. Frequent repetition of the same grade causes deterioration of the study environment because of overcrowded classrooms, in lower grades in particular, and it increases the burden of educational expenses for households and the Government, due to prolonged attendance to school. Also, criticism about the psychological influence is heard, such as "failure in the first or second grade affects a child for life; even if such children remain in school without dropping out, frustration will follow in future school studies" (Trahtemberg, p. 19).

As to the qualification of present teachers, the rate of qualified teachers in primary education in 1993 was 52.0%, and that of unqualified teachers was 48.0%. This means the situation remained unchanged from the very poor state of 1990. While the rate of qualified teachers in urban areas was 64.7%, in rural areas unqualified teachers accounted for the majority, at 68.6%. According to departments, the rate of unqualified teachers exceeded 60% in each department of Loreto, Madre de Dios, Amazonas, and San Martin in Selva (the tropical forest region).

Primary schools in Peru can be classified by allocation of teachers as follows. Of about 30,000 primary schools, 28.4% have only one teacher, who teaches all grades (unidocente); 45.5%, the highest rate, have two or more teachers, who each teach multiple grades (polidocente multigrado); and 26.2% have a complete graded class system, involving six or more teachers (polidocente completo). In the urban areas, where there are many children, the majority of the schools (76.8%) have the polidocente completo system. On the contrary, in rural areas more than half (54.6%) have the polidocente multigrado system, and the rate for the unidocente system is as high as 37% (Censo, p. 101).

Physically classifying the scale of schools by the number of classrooms (aula), 18.8% of schools have one classroom, 23.3% have two, 14.1% have three, and 13.1% have four or five classrooms, which figures total 69%. The following facilities are found in only the following rates of primary schools: a teachers' room, 10.8%; an office, 30.8%; a library, 6.4%; a hall, 4.0%; an athletic field, 28.4%; a gymnasium, 0.4%; a kitchen, 12.7%; a dining hall, 2.7%; a laundry area, 0.4%; and a sanitary service, 32.8%.

There are no data, even at the Education Ministry, that indicate the dissemination rate of textbooks among children receiving primary education in Peru. Regarding this, there is a survey on the dissemination rate of textbooks in seven countries in the Andes region. This is a sampling survey conducted in 1991 on the rate of children who use textbooks in the 1st to 5th grades of primary schools. The survey showed the textbook possession rates were 64% in Chile, 36% in Columbia, and 20% in Venezuela, while the rate for Peru was the lowest, at 18%, the same as Ecuador, which means that only one in five children has a textbook there. In Chile and Columbia, the Governments respectively bear 50% and 34% of the textbook expenses, while in Peru parents bear 98% of the expenses, as there is no State expenditure for textbooks (Wolff, p. 58).

According to another survey, about 654,000 children, which is 16.8% of the number of primary school students (3,913,000 children) answered that they both attend school and do other work as well. Over 80% of the children who said they have work said it was to help with household chores, without remuneration, but not a few children also engage in child labor, to help provide money for the family, such as peddling (45,296 students), helping with a family business (38,938 students), being a laborer (10,952 students), and working for a company (1,042 students) (Censo, p. 44).

Finally, we will look at the present state of bilingual education in Peru. The 1982 Education Law stipulates, in the provisions regarding primary education, that "In a regional society whose mother language is not Spanish, education shall be started in the indigenous language, under the assumption that it will gradually be shifted to Spanish" (Article 40). Table 4 indicates that bilingual education has been introduced not only in primary education but also in preschool education, secondary education, adult education, and some vocational education. In the case of primary education, the Quechua language is used at 1,167 schools, which accounts for 4% of all primary schools. The Aymara language, whose usage is officially approved like the Quechua language, is not much used as a teaching language.

Table 4. Types of Teaching Languages at Educational Institutions and Numbers of Schools that Use Respective Languages, 1993

Teaching language	Preschool education	Primary education	Adult elementary	Secondary education	Adult secondary	Vocational training
Total (Number of schools)	11,838	29,615	625	6,532	773	1,338
Spanish	11,177	27,670	615	6,484	766	1,306
Quechua	470	1,167	8	21	3	12
Aymara	11	35	–	4	2	1
Asháninca	9	132	–	3	–	1
Aguaruna	23	185	–	2	–	6
Shipibo	35	53	2	5	–	1
Huitoto	1	6	–	1	–	–
Cocama	–	–	–	1	–	–
Others	112	367	–	11	2	11

* Others include institutions that conduct education by foreign languages other than an indigenous language.
<Source> Prepared based on Ministerio de Educación, Censo Escolar 1993. p.115

4. Issues in Reform of Education in Peru

When President Fujimori was reelected in the presidential election in April 1995, the Second Fujimori Administration, centered on Education Minister, Dante Cordoba, began to formulate an educational policy plan. It was generally considered to be because the second administration emphasized education, that Education Minister Cordoba also served as the Chairman of the Cabinet Conference. In March 1996, the Education Ministry published the results as the "Medium / Long Perspective-Based Peru Education Development Project 1995 - 2010." This consists of a medium-term project lasting until 2,000, which is the end of the term of the Second Fujimori Administration, aiming at improving the quality of the overall education system, centered on the "Primary Education Quality Improvement Project" supported by the World Bank, as mentioned earlier; and a long-term project, lasting until 2010, that aims to develop the educational system from a long-term perspective. Let's look at the important points.

With the statement of "The Government considers education to be the optimal route (vía maestra) to realize social development that is needed by our country," the targets to be achieved in a medium term, from 1995 to 2000, are specifically presented as follows.

- To secure higher-quality teachers and principals through modernization of teacher training, in order to promote study, creativity, and character formation of children and young people.
- Teachers will practice new techniques and teaching-learning methods in the classrooms, through a training program.
- To train principals who have mastered school management and pedagogical technique.
- To introduce a new salary system considering degree of responsibility, share of school duties, and achievements.
- To make certain that every child and young person has basic teaching materials, in order to strengthen the abilities of reading, writing, logic, and arithmetic, and develop their creativity.
- To prepare diversified multicultural teaching materials considering the multilinguistic principle and geographical and cultural characteristics of respective regions.

- To support, evaluate, and disseminate the initiative that would make the basic curriculum correspond to the learning strategy and adapt the curriculum to the local or regional conditions.
- To reduce the quality disparity between public schools and private schools, and between urban education and rural education.
- To further expand what the educational system can offer and make it more flexible.
- To largely reduce the illiteracy rate, especially that of women and residents under age 50.
- To deepen collaboration between universities and the other educational systems, and improve their quality level to be able to compete well in international situations.
- To establish a school infrastructure suitable for local situations, in order to secure a more favorable labor environment for teachers and an environment for better learning and recreation for students.
- To promote school construction in accordance with the present situation and residents' educational needs.
- To have parents, students, and other related people in the community participate in the maintenance and administration of schools.
- To make school into open space that enables participation by people in the community, in order to support students' better human development and promote extracurricular activities to pursue physical, artistic, and intellectual development of children and young people in the community.

As the highest priority items in educational policy for these purposes, the following ten fields were presented: (1) training of teachers, (2) in-service training for teachers, (3) modernization of curricula, (4) distribution of teaching materials, (5) continued improvement of infrastructure and teaching facilities, (6) improvement of living standard of teachers, (7) improvement of administration and management of public educational institutions, (8) rationalization of educational administration, (9) promotion of informationization, and (10) others (technical education reform, prevention of drug abuse, literacy education, promotion of culture and sports, etc.).

In addition, long-term numerical targets to be achieved by 2010 were presented. As a matter of course, the targets after 2000 are only predictions, but they are interesting because they

Table 5. Preparatory Targets to Achieve by Period (Indexes of Dissemination Rate and Internal Efficiency)

Educational level	Index	As of 1995	Year 2000	Year 2005	Year 2010
Preschool education (age 0-5)	Preschool attendance rate of infants of ages 0-2	3%	4%	5%	7%
	Preschool attendance rate of children of ages 3 or 4	44.5%	49%	53%	56%
	Preschool attendance rate of children of age 5	45.3%	60%	70%	80%
Primary education (age 6-11)	Access rate	94%	95%	95%	95%
	Completion rate*	71%	78%	84%	89%
	Annual average dropout rate	3.5%	2.5%	2%	1.5%
	Rate of repeating the same grade	22%	16%	12%	9%
Secondary education (age 12-16)	Access rate	55%	63%	65%	67%
	Completion rate	73%	80%	86%	92%
	Annual average dropout rate	8%	4%	3%	2%
	Rate of repeating the same grade	13%	8%	5%	4%

* Gross completion rate, including children who finally graduate by repeating the same year four times or less.

present a view of the assumed future state of education in Peru, if the mid-term project is realized and the direction is continually pursued.

At the same time, the Education Ministry promulgated, toward the respective educational administration institutions and educational institutions, Education Ministry Resolution No. 016-96, "Standards for Management of Educational Institutions and Programs and Development of Their Activities" (March 2, 1996), as the standards for actual management of educational institutions.

In the Resolution, the following seven points were presented as the basic plans of educational policy that would be enforced from 1996.

1. Emphasis shall be placed on the process of improving the quality of education. Priority shall be placed especially on innovation and modernization of curricula, teaching and study methods that consider the nation's social and cultural pluralism, preparation of teaching materials, and activities of learning results evaluation.
2. Recovery of the position of the teaching profession shall be promoted. Training of teachers and continual growth of professional abilities shall be encouraged and promoted, and at the same time, a policy to improve their living standard shall be implemented.
3. Development of public educational institutions shall be strengthened, in order to provide free and high-quality education.
4. Principals shall have decision-making power regarding management of human and financial resources, which can strengthen the principals' leadership toward teachers, parents, and students.
5. Construction, repair, and rebuilding of school facilities, and supplementation of equipment, shall be continued, especially in the regions surrounding cities, rural areas, and regions near the national border.
6. Intermediate organizations of educational administration shall be newly empowered, and they shall be changed into organizations that can efficiently and effectively support educational institutions.
7. Various civil organizations shall be called upon to support the process of improving the quality of education.

However, in April, immediately after this, Prime Minister and Education Minister Cordoba suddenly resigned. With the start of the Pandolfi Cabinet, Domingo Palermo was appointed as Education Minister. The reason for Cordoba's resignation was said to be discord with Jaime Yoshiyama, the Director of the President's Office, and it is not considered to be directly related to his educational policy. In this sense, it is prospected that there will be no big change in the basic line of the educational policy even under Education Minister Palermo.

Conclusion

Andrés Cardó, who himself was once Education Minister, pointed out the basic problems of educational policy in Peru as follows. "The educational issues cannot be entrusted to the hands of one administration, regardless of whether it was justly elected or not. Educational issues should extend over several administrations. One of the big mistakes that have deepened the crisis of education in Peru is the lack of continuity. Each time, everything was started all over again" (Cardó, 1992, p. 10). Perhaps based on such historical experience, the Education Ministry

established an education development plan from a long-term perspective, until 2010, which is far beyond the term of the present administration, and this approach is noteworthy. In order to simultaneously achieve the three targets of quality, efficiency, and equity), which education in Peru is presently pursuing, long-term and continual efforts, based on a vision of the 21st century, are apparently needed.

Finally, I would like to briefly comment on the issue of higher education. In the Education Ministry's political document and long-term development plan, there is almost no mention of university education. This is because, as stipulated in the provisions of the Constitution, universities have autonomy in their administration and management, and the higher educational institutions that are directly controlled by the Education Ministry are all special education institutions of singular subjects of teacher training, technical education, or artistic education -- these are called non-university-type higher educational institutions (educación superior no universitaria). The number of universities, which was only 5 until 1950, has increased to 52 today (28 national universities, and 24 private ones). The number of students also rapidly increased, from about 30,000 persons in 1960, to 109,230 in 1970, 257,222 in 1980, 314,798 in 1990, and 368,072 in 1993. It is pointed out that "The number of university students exceeds the Government's capacity to provide financial support, and the labor market's capacity to absorb them" (Díaz, p. 4410). Universities are rapidly becoming popular, instead of being privileged institutions that nurture an elite minority, and a linkage between modernization of the nation and higher education is required more strongly than in the past. Amid such a situation of today, the dual administration method -- handling, on one hand, primary and secondary education, and, on the other, university education -- as well as the insufficient liaison coordination system between university-type institutions (self-governing) and non-university-type institutions (directly controlled), even within higher education, may have to be revised from the viewpoint of promoting integrated development of the entire education system in Peru in the future.

References

1. Anuario Estadistico: Perú en Números 1995. Cuántos, Perú, 1995

2. Cardó Franco, A. y otros, Planificación y Desarrollo de la Educación en el Perú: Un analisis de la experiencia del periodo 1948-1985. IIEP, Paris, 1989.

3. Cardó Franco, A./ Cussiánovich V. A., Situación de la Educación y del Niño en el Perú de Hoy. EDAPROSPO 1992

4. Diaz Díaz V.H., "Peru: System of Education" International Encyclopedia of Education 2nd ed. 1994 pp.4409-4415

5. Foro Educativo, Fines y Estructura de la Educación Peruana. Foro Educativo. 1995

6. INEI, El Analfabetismo en el Perú. Perú, 1995

7. IBRD, PERU: Primary Education Quality Project: Staff Appraisal Report. 1994

8. Ministerio de Educación, Censo Escolar 1993. Perú 1995

9. Ministerio de Educación, Plan de Mediano y Largo Plazo de la Educación: 1995-2010. Resumen Ejecutivo. Perú. Marzo, 1996

10. Ministerio de Educación, Plan de Desarrollo de la Educación a Largo Plazo: 1995-2010. (Draft Final) Perú. Octubre, 1994

11. Palomino Thompson, E., Educación Peruana: Historia. Analisis y Propuestas. PPO EDUCACION 1993

12. Presidencia de la Republica, Memoria Anual 1993. Perú 1993

13. Trahtemberg S. L., Educación Peruana: Entre la Economia. la Politica y la Educación. IPAE, Perú, 1993

14. Wolff. L., et. al., Improving the Quality of Primary Education in Latin America and the Caribbean. World Bank 1994

15. Ohgushi, Kazuo, *Gun to Kakumei, Peru Gunji Seiken no Kenkyu*. University of Tokyo Press. 1993

16. Saito, Yusuo, Peru. "*Shogaikoku no Gakko Kyoiku: Chumanbei hen*" compiled by the Ministry of Education. Printing Bureau, the Ministry of Finance. 1996

Supplementary Report 4

Change in the Health Care Situation and Future Issues

Kenji Hayashi

It is needless to say that a prerequisite to providing international cooperation is having knowledge about the present situation of a recipient country, and any said present condition is the product of history. This is true also regarding the health issue. The present health level, medical system, service quality, etc., reflecting the past, are the extension of change and reform of the past. We must make suggestions or provide cooperation in the direction a recipient country can accept most easily, but because there is restriction in the scale, range, and financial aspect of the donor side, such a project must be implemented effectively and efficiently. In that sense, I think it is important to gain historical understanding regarding the health situation in Peru, to better understand the present situation. In this report, therefore, I would like to give some considerations and suggestions after outlining the health situation in 1960 and thereafter.

1. Social, Political, and Economic Change and the Health Environment

A review of Peru's history over the past 30 years verifies that, as in many other Latin American countries, a long period of military administration (1968-1980) greatly affected the nation's health level and health service, as well as the economic situation. Until 1985, Peru was the third poorest country in Latin America.

In 1960, the estimated population was 10.3 million, and it increased to 19.4 million by the mid-1980s, and to 23 million by 1995, showing a doubling in the 35 years from 1960 to 1995. The speed of demographic transition is slow, and the estimated total fertility rate in 1995 was 3.4, while the mortality rate was 8.3. The former rate is equivalent to that of Japan around 1950, and the latter is close to the figure of 1957. In other words, Peru has just gone through a change from the stage of high fecundity and high mortality, to medium fecundity and medium mortality. However, there is a big disparity in fertility rates and mortality rates between urban and rural areas, and a considerable part of the population increase in rural areas is absorbed by cities, in the form of population movement. As a result, the rate of urban population in the nationwide population increased from 36% in the 1960s to 71% (1994). However, the disparity in wealth seen in the 1960s – the wealthy class accounted for 10% of the population, and the poorest class, 60% – was retained until the late 1980s.

Interestingly, the administration established by a military coup d'etat in 1968 was not characteristically representative of the wealthy class, as is commonly the case. As the administration conducted agricultural reform nationwide, many wealthy people in the landlord class left the country. At the same time, the administration nationalized major industries, such as petroleum and fish meal, as well as banks. Amid the state of poverty, food support and food price control were conducted. Because these measures were carried out hastily, reorganization of such as cooperatives and technological modernization did not catch up with reform; instead the result was lower production and further decline of the national economy, which further expanded external debt.

Because of such mis-administration, another coup d'etat occurred in 1975, and though radical policies were relaxed, the Peruvian economy did not improve at all, and in 1977 a nationwide strike finally occurred. In 1980, at long last, a democratic general election was held,

and former President Fernando Belaunde Terry, who had been ousted in the 1968 coup d'etat, returned to lead a new administration. This time he aimed at establishing a market economy, but the expected results could not be achieved, and inflation worsened, resulting in enlarging the already huge external debt. Under such circumstances, terrorist (Sendero Luminoso) activities, based in the back Andes region, became active.

As an external factor for further worsening of the economy, influence from the recession in America in the 1980s has been pointed out, and it is said that national boundary disputes with Brazil, Ecuador, and Chili were the perfect excuse for expanding the military budget, which also relates to the economic situation.

The administration in 1985 and thereafter tried to build a domestic-demand-led economy, but runaway inflation occurred, which is analyzed as having made the informal sector huge. The Fujimori Administration introduced an economic liberalization policy, and at the same time it started structural reform. The administration experienced difficulties once, but successfully overcame them, to reach the present state. Such political economic movement cannot but affect the health system. In the period of military administration, despite the state of deficiency, efforts were made to achieve systematization (due to the nature of such an administration), and it can be said that subsequent administrations progressed with an orientation toward a market economy in the aspect of health care.

2. Health Care Situation in the 1960s

At that time, 64% of the population lived in the rural areas, and about half of the population was pure Indians. Rural medicine was provided, empirically, by shamans and traditional healers, who were trusted by residents, as was recorded in a survey by international institutions.

As to modern medicine, hospitals of a charitable organization called Beneficiencia had the largest-scale network at that time, and they accounted for 42% of the total number of beds in the entire nation. Short-term care of outpatients was dominant, which indicates emergency treatment was the mainstay. However, the hospitals' facilities were poor, and they were always overcrowded with patients, so it is easy to imagine that they were far from what could be considered modern medicine. Half of the funding for these hospitals was provided by the Ministry of Public Health, in the form of subsidies, supplemented by some special tax, as well as lottery profit.

At that time, there were not many hospitals under the jurisdiction of the Ministry of Public Health, and the medical system was centered on health centers (which provide medical treatment rather than preventive activities, differently from present Japanese health centers), which numbered 71 in the entire nation. In addition, there were 142 health posts, staffed part-time by doctors, as facilities under the health centers, but the posts were often vacant.

Interestingly, Peru started a health insurance program (the Obrero Program) for physical laborers in 1936, prior to other Latin American countries, and it opened the first exclusive hospital, related to the insurance program, in 1941. In 1948 the country started a second health insurance program (the Empleado Program), targeting white-collar workers, and opened many various-sized hospitals. These two insurance programs enabled the members, who accounted for 7% of the entire population, to receive modern medicine. Following these programs, social insurance system hospitals were started. In the Obrero Program, only members could receive service; family members could not. In the Empleado Program, service could be received only for childbirth by a member's spouse. The Empleado Program had better management and hospital facilities than the Obrero Program. The members of the Empleado Program could also receive

treatment by a private medical practitioner (private medical facilities generally provide better-quality medical service in Peru), by paying the difference from the insurance-set price. In addition, some enterprises managed hospitals for their employees; and the army, police, etc., had respective exclusive hospitals that provided good-quality service.

Around 1960, the number of doctors was about 4,000, which in relation to the population meant 38.5 doctors per 100,000 persons, and most of the doctors were graduates of Peru's only medical school, at National University of San Marcos (afterward many medical schools were established). Seventy-two percent of Peru's doctors were concentrated in the Lima metropolitan area, where 15% of the total population resided, and of these doctors, 80% were employed by medical institutions; however most were also private practitioners (a similar phenomenon is seen today in many developing countries).

The number of registered nurses was only slightly larger than half the number of doctors, so local areas have greatly depended on assistant nurses, who were trained in a short period. In small towns, as a measure to cover the absolute shortage of medical facilities, Ministry of Public Health-related hospitals and social insurance-related hospitals mutually collaborated, enabling any insurance member to receive treatment.

3. Establishment of a Health Care System

In the 1980s, a considerable change, compared to the past, was seen in the nature of the health care system and the quantity of service. On the other hand, the system of the 1960s was kept in some aspects. For example, the role of traditional medicine still could not be ignored in back-country mountain areas, and treatment, such as setting of broken bones, treatment of snake bites, and massage to relax pain, was mainly conducted. The caregivers usually engaged in agriculture for a living. At the National University of San Marcos, efficacy-confirmation study of traditional treatment has been conducted, up to the present.

The charity hospitals, which had a bigger network in the 1960s, were mostly closed or placed under the control of the Ministry of Public Health, in the 1980s, and as a result only the mental hospital in Cusco remained. Treatment of staff of the hospitals that were incorporated into the Ministry of Public Health was greatly improved, but the facilities were still poor, and patient treatment was mostly given for free. In some mountain areas, however, foreign mission-related small-scale clinics were active. The activities of charitable organizations were rather shifted to the production of basic pharmaceuticals; for example, the majority of oral dehydration solution for treatment of dehydrated infants, which solution those organizations manufactured, was delivered to the Ministry of Public Health-related hospitals.

The Ministry of Public Health's service supply rapidly expanded through transfer of control of charity hospitals, and their share of hospital beds throughout the country increased from 16% in the 1960s to 54% in the early 1990s. The number of health centers rapidly increased, from 71 in the 1960s, to 612 in the mid-1980s, and to 1,083 in 1992, and so did the number of health posts, from 142, to 1,700, and to 3,079, respectively. Staffs were also largely increased accordingly.

The Ministry of Public Health mainly supplied medical service, but a planning and coordination division was added as a new function. Until the 1980s, the chiefs of the medical spheres created by dividing the entire nation into 17 divisions (presently reorganized into 6 spheres, with 27 sub-medical spheres) were supposed to be under the immediate control of the Vice-Minister, and to be fully responsible for the activities of their respective medical spheres. Actually, however, independence of individual hospitals is unexpectedly strong. Though the

health center chiefs are responsible for the respective medical spheres, it is said that in actuality their administration and supervising functions often do not work. Though health centers are supposed to conduct mainly maternal and child health preventive activities, in actuality medical service represents a considerable share of their work. Health centers usually have a small pharmacy.

In the period of military administration, hospitals' function to supervise the health was emphasized, but they did not necessarily function effectively, because they were busy with treatment. Similarly, in the 1980s, health centers did not necessarily effectively manage their function to supervise health posts. In the 1970s the role of the regions was emphasized, but it is said that the health simply implemented the orders of the center, because the tone of centralization of government was strong. Also, it is said that regional citizens' participation regarding management of health centers and health posts was rare, and priority on school health was not high either. However, it is reported that substantial power was transferred to localities by order of the central Government, regarding preventive activities for vaccinations and malaria and yellow fever control.

As the regional activities were weak, primary health care activities by international assistance began to be introduced around this time. Based on reflection on such inefficiency of medical administration control, system reform was conducted in the 1990s, and administrative organizations, such as UDES and UTES, which have no medical functions, were created under the sub-medical regions, thus strengthening medical administration functioning.

The number of health insurance members (excluding family members) increased from 620,000 in the 1960s to 2.78 million in 1985. This 1985 figure represented 14% of the population, and the rate finally became over 30% in the 1990s. As to content, both of the above-mentioned insurance systems came to cover pregnancy and child-delivery care for families, as well as disease care for infants younger than age 1, and later the age was extended to include all minors, up to age 18. This was possible because the two insurance systems were united into IPSS (Instituto Peruano de Seguridad Social) in 1975. Due to political, financial, and administrative difficulties, however, the actual system situation as of 1992 was still similar to the incomplete state of combination in 1988. The rate of insurance-joining in 1988 was estimated to be 28% nationwide, but it was only 2.5 to 4.7% in some rural areas. At any rate, efforts toward unification were made through the Nationwide Regionalization Law, established later. It should be pointed out that it is necessary to pay attention to the gap between the established system and the actual state, in considering the past health care situation in Peru.

As the supply of health care service increased, system establishment became more urgently needed. First, the number of hospital beds available to insurance members increased, by 1,300 beds over the number in 1960, to total 4,700 by 1985. IPSS established a contract with the Ministry of Public Health, thus enabling non-members of insurance to use beds. In the past only Empleado allowed the usage of a private hospital by additional payment, but unification of insurance enabled usage by every member in this way. Taking 1983 as an example, among 156,000 persons who were admitted to IPSS hospitals, 77.1% were IPSS program members, and the others were members of another program under contract relation with IPSS, or they were persons who paid the costs themselves. This tendency was also similar among outpatients.

The number of doctors increased remarkably from 1960 to 1993, more than quadrupling, from about 4,000 persons to 17,000 persons. About 70% of the doctors work at public medical institutions, but most of them also practice medicine privately. Related to this, it is said that doctors often introduce their patients to the doctors' related private medical institutions, due to such reasons as the crowded state of public medical institutions.

As to pharmacists, 87% work in the private sector. The medical market grew remarkably during the 30 years following 1960, and the number of beds at private medical facilities increased almost fivefold. Also, expenses for medical treatment and medicine are basically separate, and as such the growth of the pharmaceutical industry cannot be ignored either.

4. Medical Resources

Medical resources consist of manpower and facilities. As to doctors in particular, among manpower, the number increased more than fourfold, from 4,000 to 17,565, during the period from 1960 to 1993, and they are trained in seven medical schools, only one of which is public. Graduates from the medical schools receive resident-physician training for a certain period, and then they become registered in Colegio Medico as medical specialists. However, there are also other processes to become registered as medical specialists, and they are not necessarily strict. Colegio Medico, for its part, ostensibly only has a role to conduct general regulation regarding medical ethical issues; however, it is also known to conduct political activities, as a protective group, in collaboration with the Peru Medical Association. Though only half of the nation's doctors belong to the association, this group is politically influential, and it instigated strikes by physicians several times in the past, seeking to increase the salary of doctors working for the Ministry of Public Health and IPSS, and its negotiations with such organizations were successful.

Even in the 1990s, the uneven distribution of doctors in cities remained unchanged, but it can be said that the disparity was slightly eased due to the increase of the urban population. In the law stipulated in 1975, newly graduated doctors were obliged to work in a local area for one year, but in 1980 the law was revised, and the obligation was limited to only doctors associated with the Ministry of Public Health. Ironically, though many people desired to work under the Ministry of Public Health, their appointment to such posts was difficult because of a shortage of government funds.

Now, medical facilities will be described according to those for hospitalization and those for emergency outpatient treatment. First, as to the number of beds available for inpatients, the rate per 1,000 persons of the population was 2.15 in the 1960s, and such beds were mostly in exclusive wards for mental disease, tuberculosis, and Hansen's disease, but later almost all of these wards were closed, due to changes in the disease structure. The number of beds per 1,000 persons of the population in the 1980s was 1.56, showing a large decrease from the 1960s. However, if we look instead at the usage of facilities, another aspect appears. The average number of hospitalization days in 1960 was 23, and this had shortened to 10 by 1985. In other words, the functional rate of bed usage was improved due to the change in disease structure mentioned above, and calculating the rate based on the population in the 1960s, it was 3.8 in 1985, showing that the situation did not necessarily worsen.

In terms of the numbers of facilities and beds, the numbers are larger in the order of Ministry of Public Health-affiliated hospitals, IPSS-related hospitals, and private hospitals, but the order is completely the opposite in the aspects of equipment, staff sufficiency, and medical quality. Though the number of beds at individual private hospitals is small, doctors at public hospitals send their patients to their related private hospitals on a daily basis, because of the open system, thereby taking charge of the patients, themselves. Emergency medicine has been considerably established since 1960, and quantitative expansion of health centers and health posts has been remarkable. These facilities, evenly distributed nationwide, conduct both primary-care activities and emergency treatment. In addition, there are IPSS-related polyclinics that conduct emergency

treatment, where medical specialists are on duty, and the quality of medical service is better than at Ministry of Public Health-related health centers.

5. Public Finances for Health Care

Expenditures for health care accounted for 4.5% of the GDP in 1984, and public expenditures represented 67% of all health care expenses, among which 2% was provided by foreign assistance. In the early 1990s, health expenditures dropped to 3.2% of the GDP, and the Government's medical budget considerably decreased. This figure is less than half of the average of other Latin America countries' health expenditures, and this means that people have more difficult access to medical care, and it conversely means the private sector was considerably depended upon for health care. According to a specialist's estimate, 75% of all health care expenses were spent for medical care at hospitals, and the rest was used for primary care.

As to the Ministry of Public Health's budget, 73% was allocated to Peru's various regions, and 17% was used for central administrative expenses. However, the majority of the regional budget was facility management expenses. A household survey in Lima showed the rate of medical expenses in individual expenditures was not very high, at 2.6%, but the breakdown indicates that almost 50% is spent for buying medicines, and nationwide this rate is estimated to be 59%. As the above shows, a considerable part of the government budget is appropriated for management expenses, and individual expenditures are mainly to purchase medicines. Considering that most of the products provided by the pharmaceutical industry are imported from overseas, it can be understood that the sluggish economy during the progress of inflation kept people away from medical facilities or forced them to make do with low-quality medical care.

6. Supply of Health Care Service

A breakdown of the quantity of outpatient treatment service according to facilities in 1982 showed that health centers and hospitals each had an almost 50% share. In health centers' health care service, the part related to maternal and child health exceeds half. According to an estimate, 23% of the population depends on only patent medicines. The Minister of Public Health at that time said, "Half of the people regularly use medical facilities, including heath checkups; one-fourth can use them occasionally, and the remaining one-fourth have no such opportunity at all." A report (1992) by the Pan American Health Organization (PAHO) also showed a similar tendency in the early 1990s. As health centers were not well-regarded by the people because of their low quality of service, the trend of using hospitals became even stronger.

This does not mean, however, that no measure was taken to promote usage of health centers. Similar to other Latin American nations, volunteers called health promoters were abundantly trained locally in Peru, to work in preventive activities and to introduce clients to health centers. They were given the opportunity to receive training to later become nurses and environmental supervising officers.

It is noteworthy that though the health care situation in Peru was considerably affected by the political and economic changes that occurred after 1960, the health standard did not necessarily worsen. For example, the infant mortality rate, which was 142 out of 1,000 births in 1960, decreased to 94 in 1985, and to about 55 in the 1990s. The infant mortality rates in urban and rural areas decreased in similar proportions, but there remained a twofold disparity between them. Life expectancy at birth also increased, from 47 years in 1960 to 60 years in 1985, and to

65 years in 1993. After all, it can be said that Peru was far behind other Latin countries, where the health level rapidly improved. During the period between 1990 an 1995, the Government aimed, as a target to be achieved by 1995, to reduce the infant mortality rate by half, and to eradicate polio and neonatal tetanus by increasing the vaccination rate to 85%. The results will be announced soon.

7. Consideration and Suggestions

From a macro-viewpoint, improvement of the health care standard generally tends to depend on a nation's economy, but there are some exceptions in which the health standard is high despite a low economic level. This indicates that the political viewpoint, the system, and the financial distribution affect medical policy. Because each country has its own historical background, it is realistic to probe for a direction based on it.

From the standpoint of considering people's health as a basic purpose of the State, instead of considering it as a subsidiary factor important for national development, the reason for targeting satisfaction of basic human needs in economic development can be seen, and through this, integration and stability of the society can be expected.

As is indicated in the "development strategy" by the OECD's Development Assistance Committee in 1996, the targets by 2015 include reduction of infant mortality to one-third, and maternal mortality to one-fourth. Maternal and child health indices are emphasized, among many health indices, because a poor economic environment always dominantly affects the weak. However, because investing in medical resources, including human resources, amid a poor environment, is economically inefficient, it is often ignored. Under such circumstances, the political stance is important, but as a realistic policy, implementation of economic development and health measures in parallel will be the most effective method. Therefore, it is ideal to promote international cooperation in health care in parallel with development of other sectors.

The health standard in Peru is just slightly higher than that in Bolivia, which is the lowest among Latin countries. Though Peru is far behind the other countries in this field, the situation has been improved despite long-term economic difficulties, and this phenomenon is often seen in other countries as well. This is because the health-related environment improves in conjunction with population movement from rural to urban areas, and many people receive benefits from the improvement, as has been indicated in many studies on developing countries. The conditions in cities are not necessarily good, depending on places, but they are still better than in impoverished rural areas. However, improvement measures based on urbanization further expand the disparity between urban and rural areas, and it cannot be said to be sound social policy. While the concentration of population into cities positively affects the health standard, the population increase has a negative effect of decreasing medical resources per person, with the set absolute amount of service. Therefore, if an improvement measure basically aims to raise the entire bottom level, it is necessary to tackle both individual health issues and allotment of health resources, which represents establishment of an entire health system, including human resources. These issues require attention in both quantitative and qualitative aspects.

If the OECD's targets mentioned earlier are applied to Peru, the infant mortality rate is expected to be 13 out of 1,000 infants, and the maternal mortality rate is expected to be 63 out of 100,000 deliveries. Considering the present disparity between urban and rural areas, achievement of these targets will be impossible without improvement of the rural areas. On a long-term basis, such improvement is effective if economic development progresses to a certain level, but on the other hand, the issue of what should be done in the time being also needs to be

addressed. The biggest problem in health care is the absolute shortage of services both in quality and quantity. Related to this is, first, the issue of manpower. In addition to the uneven distribution of doctors, concentrated in cities, a uniqueness of Peru is that the number of nurses is only half that of doctors, compared with other Latin American countries, where nurses more than double the numbers of doctors.

In order to improve the health standard in rural areas, development centered on primary care is expected, but nurses, which play the most important role in providing primary care, are in short supply, making the situation quite serious. Nurses who are already working in rural areas should also be given the opportunity to receive further training, toward taking charge of primary care, instead of simply doing doctors' work. Also, sometimes in the past, even if a doctor desired to work in a rural area, his assignment could not be realized due to a shortage of Ministry of Public Health funds, so this issue should be considered as being related to the direction of the Government's overall measures and improvement of the administration management ability.

The issue of health care facilities cannot be left alone. The facilities and service of health centers, in particular, among various facilities, are still inferior, and especially in rural areas a health center is often the only medical institution, and they sometimes cannot meet even minimum needs. Also, in regions that have a hospital, because residents' trust toward a health center is low, patients tend to overwhelmingly choose to go to the hospital. Functionally a hospital is supposed to be a facility that cares for patients that have relatively serious conditions, but due to the above reason, hospitals have to handle large volumes of patients, including even those with mild conditions, which results in making it difficult for seriously ill patients to be hospitalized. That means hospitals cannot achieve their original function, and also the health centers are not functioning well either. As such, resources are being terribly wasted in both facilities. As an improvement measure, facilities and service of health centers and small-scale hospitals should be promoted, and at the same time, it is desired to establish a referral system to enable patients with mild conditions and seriously ill patients to receive treatment at respectively suitable facilities.

One of the characteristics of the medical administration management in Peru is IPSS-affiliated hospitals' relative independence from the Ministry of Public Health. The reason for their relative independence is perhaps due to finances. In a situation in which the insurance-joining rate is low, IPSS-affiliated hospitals can survive because they have only a partial contract relationship with the Ministry of Public Health, while if they provide full service to non-members of the insurance system, which are mostly poor people, the insurance system itself will not function.

Presently, it is no exaggeration to say that the Ministry of Public Health-affiliated medical facilities are rather managed as a relief project for the poor. In Japan, medical care and welfare are recognized as already specialized fields, but in Peru it is more realistic to consider them as integrated. Therefore, the present administration's direction, which includes medical care in "poverty measures," is easily understandable, and, from a macro-viewpoint, it is an issue of redistribution of wealth. If the insurance-joining rate becomes higher in the future, medical care can be integrated into administration management, and to aim in this direction will be beneficial for the people too. From the perspective of the medical economy, Peru is rare among developing countries to have a medical insurance system, and it is classified as a so-called welfare-oriented system. Falling into financial difficulty, any country is enticed to shift to an entrepreneurial system (enterprise privatization of medical care), but it would greatly damage the people in developing countries, where there is great disparity of wealth, as opposed to industrialized countries. Considering the national circumstances of Peru, a middle type between a

comprehensive-oriented system and a welfare-oriented system seems to be suitable.

As to efforts regarding individual health, maternal and child health will be the mainstay at present. Recent data have shown that diseases of adulthood have surely appeared as major diseases in urban areas, but this country is just experiencing the third stage of demographic transition, and focusing on adulthood disease in international cooperation is still considered too impractical.

Even within maternal and child health, there are individual problems that are involved with social issues, such as teenage pregnancy and AIDS. Tackling these issues in the entire maternal and child health is considered a better-balanced approach, rather than taking them up as individual projects.

As mentioned above, I have described the health care circumstances in Peru, ranging from a historical consideration to an approach for international cooperation based on the present situation, including my own opinion. Lastly, I would like to emphasize the need to consider the health care issue as part of socioeconomic reform. The health care issue is related to finances, and administration management is also a government-system issue, and individual health problems are deeply related to poverty and the overall living environment. In closing, therefore, I would like to state that it is important to manage health projects in relation with other projects, instead of planning and implementing them alone.

References

1. Roemer I.M. (1991), National Health Systems of the World. Vol.I 335-344. Oxford University Press, Oxford
2. Zschck D.K. (1993), Health-Sector Disparities in Peru in Health Economics Research in Developing Countries ed. by Mills A., Lee K. 63-80, Oxford University Press, Oxford
3. Health and Welfare Statistics Association, *Kokumin Eisei no Doko*, 1996
4. Ministerio de Salud, Perú (1996), Programa de Salud Reproductiva y Planificación Familiar 1996-2000.
5. International Bank for Reconstruction Development Report (1993), Poverty Assessment and Social Policies and Program for the Poor.
6. United Nation, World Urbanization Prospect, The 1994 Revision.
7. Center for International Health Information (Virginia), Health Situation & Statistics Report 1994, Peru.

Annual Studies (Country, Region, and Issue-Wise, Etc.)

Year	Title			
	Country Studies			
1987	Country Study for Japan's Official Development Assistance to the Philippines	J	E	
1988	Country Study for Japan's Official Development Assistance to India	J	E	
1989	Country Study for Japan's Official Development Assistance to Thailand	J	E	
1990	Country Study for Japan's Official Development Assistance to Indonesia	J	E	
1990	Country Study for Japan's Official Development Assistance to Bangladesh	J	E	
1991	Country Study for Japan's Official Development Assistance to Brazil	J	E	P
1991	Country Study for Japan's Official Development Assistance to Pakistan	J	E	
1991	Country Study for Japan's Official Development Assistance to Sri Lanka	J	E	
1991	Country Study for Japan's Official Development Assistance to China	J	E	C
1992	Country Study for Japan's Official Development Assistance to Egypt	J	E	
1992	Country Study for Japan's Official Development Assistance to Kenya	J	E	
1993	Country Study for Japan's Official Development Assistance to Malaysia	J	E	
1993	Country Study for Japan's Official Development Assistance to Nepal	J	E	
1994	Second Country Study for Japan's Official Development Assistance to Indonesia	J	E	
1994	Second Country Study for Japan's Official Development Assistance to the Philippines	J	E	
1994	Country Study for Japan's Official Development Assistance to Palestina	J		
1995	Country Study for Japan's Official Development Assistance to Viet Nam	J	E	
1995	Second Country Study for Japan's Official Development Assistance to India	J	E	
1995	Country Study for Japan's Official Development Assistance to Ghana	J	E	
1995	Country Study for Japan's Official Development Assistance to Senegal	J	E	F
1996	Second Country Study for Japan's Official Development Assistance to Pakistan	J	E	
1996	Second Country Study for Japan's Official Development Assistance to Thailand	J	E	
1996	Country Study for Japan's Official Development Assistance to Jordan	J	E	
1997	Country Study for Japan's Official Development Assistance to Mongolia	J	E	
1997	Country Study for Japan's Official Development Assistance to Tanzania	J	E	
1998	Country Study for Japan's Official Development Assistance to Laos	J	E	
Regional Studies				
1991	Regional Study on Japan's Development Assistance to Africa	J	E	F
1991	Regional Study on Japan's Development Assistance to Oceania	J	E	
1994	Regional Study on Japan's Development Assistance to Sub-Saharan Africa	J	E	
Issue-Wise Studies				
1988	Study on Japan's Development Assistance for Environment	J	E	
1990	Study on Japan's Development Assistance for Poverty	J	E	
1991	Study on Japan's Development Assistance for Women in Development	J	E	
1992	Study on Japan's Development Assistance for Population and Development	J	E	
1994	Study on Japan's Development Assistance for Development and Education	J	E	
1995	Study on Japan's Development Assistance for Participatory Development and Good Governance	J	E	
1997	Local Development and the Role of Government	J	E	
1998	Study of Japan's Development Assistance for DAC New Development Strategy	J	E	

J= Japanese E= English F= French P= Portuguese C= Chinese S=Spanish