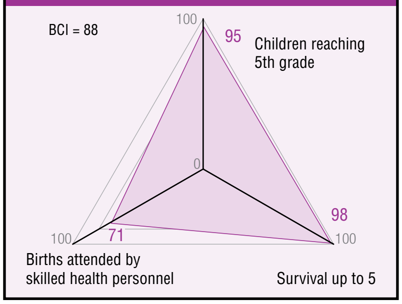
PERU

More money but the same social injustice

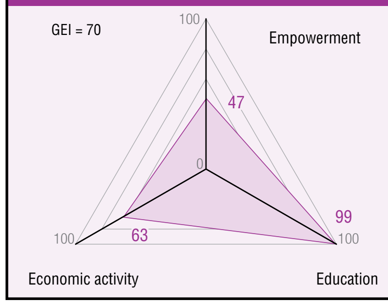
In spite of marked growth in the country's Gross Domestic Product (GDP) and an increased public sector budget, which has doubled in the last 20 years, social investment in Peru has actually fallen. Since 1990 the influence of the international financial institutions on social policies has not only failed to significantly reduce extreme poverty and hunger; it has served as an excuse for the Government to do nothing in this area. The State has not undertaken a much-needed reform of the tax system, organized a universal social security system financed from taxes nor made budget allocations to tackle issues related to gender or the environment.

Comité de Social Watch en Perú
Centro de Estudios para el Desarrollo y la Participación (CEDEP)
Héctor Béjar

Basic Capabilities Index (BCI) 2010



Gender Equity Index (GEI) 2009



While State expenditure has doubled in the last 20 years, public investment in this period has been so small as to be insignificant. The State has not given priority to the needs of the most vulnerable sectors of the population, claiming to be following guidelines laid down by the international financial institutions. These guidelines have also led to favourable conditions (such as tax breaks and a lack of labour regulation) for private investment, which has increased over the period. But the conditions that the multilateral aid organizations have imposed on Peru in exchange for resources – that is to say, the country's commitments to external bodies – should not be used as an excuse for the State's failure to discharge its responsibility to pursue the greatest possible well-being of the country's people.

It is absolutely essential for the country to adopt a change in policies, a far-reaching tax reform so that wealth is redistributed in a much more equitable way, a universal social security system, greater independence in terms of setting priorities for public investment and for how aid resources are used, and awareness-raising among all stakeholders about the importance of incorporating measures to protect the environment and promote gender equality in the national budget. If the country does not start to do this it will not be able to reduce real poverty and will not make progress towards the Millennium Development Goals (MDGs).

What the State costs

It is almost impossible to make an efficient evaluation of the budget because of the lack of transparency. In practice, it is managed through supplementary credits granted by Congress, which gives the Executive the freedom to act outside what has been passed in the budget law. The official figures that are issued are thus no more than general indications.

For example, according to official figures, the country's GDP in 2009 was PEN 411 billion (a little over USD 140 billion) and the budget in that year was USD 24.6 billion, which was a big increase over the 1990 figure of USD 10 billion. This growth in expenditure was presented to the public as social investment, but that was just a smokescreen to conceal what really happened, which was that the State took over the debts of the social security system. By rights these should have been passed on to the new pension funds, the Administradoras de Fondos de Pensiones (AFP), but these private organizations have only taken on the assets (and not the liabilities) of the previous system. What is more, the current Government has taken advantage of the situation to report a figure for social expenditure that is higher than what was in fact invested (in hospitals and schools, for example).

Some 12.5% of the budget – over USD 3 billion – was allocated to foreign debt payments,[1] and according to the Ministry of Economy and Finance (MEF) a similar amount was spent on pensions. But the Government itself acknowledges that in recent years real debt service payments exceeded the figure specified in the budget and the difference was made up by re-financing operations carried out by the MEF without any kind of consultation or debate.[2]

The resources

The Peruvian State has two sources of finance: income from taxation and loans placed on the international and domestic markets in the form of "sovereign bonds." Out of the total budget in 2009 – USD 24.6 billion – just under USD 21 billion came from various kinds of taxes, including municipal taxes and levies or "canons," which are payments made by foreign enterprises operating in the country.[3] The rest was obtained through various credit operations. In other words, while from the accounting point of view it was a balanced budget, in practice there is a permanent deficit that is covered by loans contracted in the domestic market and abroad.

Tax pressure in Peru is 14%, which is four points lower than the average in Latin America. The main taxes are on income, imports, production, consumption and fuel. Physical persons pay more on their income than legal entities, and production and consumption are taxed at a higher rate than income. There are no taxes on wealth and property. The tax on income covers 20% of the public sector budget.

Thanks to Legislative Decrees No. 662 for the Promotion of Foreign Investment and No. 757, the Framework Law for Private Investment – both from 1991 – enterprises are guaranteed the following:

- A special regime in company income tax.
- Free availability of foreign currency.
- Freedom to remit profits, dividends and other income.
- The use of the most favourable exchange rates.
- The right to contract workers under any modality without being subject to any law, including under conditions that contravene legal regulations.

Under this regime, 278 large enterprises have been able to reduce the amount they pay in income tax by up to 80%, costing the State at least USD 375 million a year.[4]

1 Public sector law for the 2009 fiscal year.

2 Armando Mendoza, *Campaña por un Presupuesto con derechos 2009* (Lima: Red Jubileo Perú, 2009).

3 According to a report by the National Society of Mining, Petroleum and Energy, *Mundo Minero* in May 2007, in the 2006 fiscal year the mining canon yielded some USD 1,225 (50% of the tax on income). The income from both the mining canon and fees was subsequently distributed by the State among 22 departments and regions and 1,753 municipalities.

4 National Tax Administration Superintendent, *Estimación de los efectos de los convenios de estabilidad tributaria*, September 2002.

Lost capital

Peru is a forced exporter of capital. It sends abroad an average of USD 2.5 billion per year in foreign debt service payments and USD 3.2 billion in the form of profit remittances.

On 30 September 2009, Peru's public debt amounted to USD 31.3 billion (USD 20.3 billion in foreign debt and about USD 11 million in domestic debt). In addition, the country has immobilized reserves of USD 35.4 billion. Since 2000 Peru has paid some USD 50 billion to the Paris Club, the United States Treasury and the head offices of the transnational enterprises that operate in the country.[5]

Investment and espionage

According to the Central Reserve Bank, private investment amounts to 16% of GDP while public investment comes to only 2.8% of GDP. On top of that the actual payment of public expenditure is extremely slow; according to Red Jubileo Perú, an NGO network specializing in public debt, for example, by October 2009, only 30% of the budget allocations for that year had been paid.[6]

Private investment

At the present time Peru has 45 contracts for gas and petroleum exploration in force and a further 19 for exploitation of these resources, which together generate investments of around USD 4 billion. In addition, 19 more lots have been put out to tender, of which 12 are in the Amazon region.

Deforestation and the poisoning of water and the atmosphere are everyday occurrences in Peru, and people in the Andes and Amazon regions are rising up in protest. Private investment in oil, gas and mining has led to widespread corruption in the government sector, and this has spawned a range of illegal activities including the tapping of rival enterprise and State telephone and Internet communications, bribing judges and public officials, buying journalists, private armies of spies, shock troops and threats against opponents and critical members of the press.

Social investment

According to UNICEF the proportion of GDP allocated to social public expenditure increased from 7.9% of the public sector budget in 2000 to 9.2% in 2005, while according to the MEF social expenditure went up to 6% of GDP in 2009.[7] One way or another approximately half of public spending goes to social sectors. But the figures issued by international organizations include expenditure on pensions for state employees and this masks the real situation. Net social expenditure (non-provisional social spending) is much less and in fact amounts to only 27% of the budget today in contrast to 37% in the 1990s, so in relative terms it has actually decreased.

Budget conditioning

For many years the international financial organizations have directed and placed conditions on social policy in Peru. For example, continuation of the "Juntos" (Together) Program was one of the IMF/World Bank conditions for renewing financial assistance to the country in 2008.[8] This year the World Bank approved a loan of USD 330 million for Peru to finance social expenditure and anti-cyclical measures to cope with the impact of the world financial crisis. The Bank stated that this was the second programmed loan for social sector reform geared at supporting education, health services and social programs including "Juntos."

These organizations are also promoting a scheme called Budget by Results. In article 13 of the 2010 Budget Law, Budget by Results is established for the following:

- Non-transmissible diseases, tuberculosis, HIV and metaxenic diseases and zoonosis (which will be the responsibility of the Ministry of Health).
- Learning achievements in primary education and alternative basic education (Ministry of Education).
- Child labour (Ministry of Labour).
- Domestic violence, sexual violence and food security (Ministry of Women and Social Development).
- Environment sustainability (Ministry of the Environment).
- A widening of the taxbase (National Tax Administration Superintendent).

Inequality

Income levels in the poorest sectors of society have risen but the income gap has widened. While opening up trade has served to reduce inequality, opening up the financial sector (through foreign direct investment) and technological progress have increased the rewards for the more highly skilled while limiting opportunities for economic progress. In Peru, 35% of income goes to the top decile of the population and a meagre 1.6% to the lowest decile.[9]

Implementation of the Law of Equal Opportunities for Men and Women,[10] which is an attempt to establish a suitable regulatory framework for gender equality based on budget allocations, has been impeded, paradoxically, by the lack of specific budget allocations in this area.

The environment problem

The main consequences of global warming in Peru will be that the glaciers will retreat, the El Niño phenomenon will become more frequent and more intense and the sea level will rise.

According to the National Environment Council, in the last 22 to 35 years some 22% of glacier surface area has been lost, which is equivalent to 7 billion cubic metres of ice or 10 years of water consumption in the city of Lima, and this effect is more marked in small glaciers and those lower down. Projections indicate that by 2025 all glaciers in the country under 5,500 metres above sea level will have disappeared.

Specialists have calculated that the economic cost of damage to the environment amounts to 3.9% of GDP, and the effects are felt mainly by the very poor. A study sponsored by the World Bank estimated that the economic cost of damage to the environment, the reduction in natural resources, natural disasters and inadequate environmental services was in the region of USD 2.8 billion in 2006.[11] However, in the period 1999 to 2005, public expenditure on the environment came to a mere 0.01% of GDP, a figure that shows only too clearly that there is no political will to halt or even try to slow down the current rate of environmental deterioration. ■

5 MEF, Economics Transparency Portal. Available from: <www.mef.gob.pe/DNEP/estadistica_cp.php> (accessed 15 April 2010).

6 Armando Mendoza, *op. cit.*

7 Dirección de Presupuesto del MEF (MEF Taxation Office).

8 Juntos was set up in 2005 as a national program to provide direct support for the very poor. It is aimed in particular at rural families to combat chronic child malnutrition and extreme poverty by the payment of a monthly conditional cash transfer of USD 34.

9 IMF, *World Economic Outlook,* 17 October 2007.

10 Congress of the Republic. Available from: <www.mimdes.gob.pe/files/DIRECCIONES/DGM/ley28983.pdf>.

11 World Bank, *Análisis ambiental del Perú: Retos para un desarrollo sostenible* (Washington, DC: World Bank, May 2007).