

Combining Social Protection with Economic Opportunities in Rural Peru: *Haku Wiñay*

by Javier Escobal and Carmen Ponce¹

Within the context of macroeconomic stability, Peru has enjoyed sustained growth and poverty reduction during the last two decades, with poverty rates declining from 58.7 per cent in 2004 to 22.7 per cent in 2014. Whereas the evidence suggests that economic growth has been the main driver behind the observed reduction in poverty,² redistributive public programmes seem to have played a key role. In particular, public programmes enhancing market connections seem to be increasing the responsiveness of poverty rates to economic growth, especially in rural areas.³

Despite this positive performance, however, poverty dynamics in Peru have remained highly heterogeneous across the urban and rural divide and across regions. Poverty has decreased more slowly in rural areas than in urban areas, and poverty elasticity in urban areas is twice that of rural ones (García and Céspedes 2011, own estimates).

The government is well aware of the need to foster a more inclusive growth strategy to reduce the gaps between those who have been historically excluded (by reasons of ethnicity, rurality, gender or being extremely poor) and those who are currently reaping the benefits of an expanding market economy. In 2011 it created the Ministry of Development and Social Inclusion (MIDIS) to lead the nation's development and social inclusion strategy. In 2012 the government approved the National Inclusion for Growth strategy (*Incluir para Crecer*).

Economic inclusion is one of the five pillars of the Inclusion for Growth strategy. As those excluded from the economic opportunities for growth face restrictions on multiple fronts (i.e. productive assets, technical capacities, cash and financial opportunities, key public infrastructure etc.), the economic inclusion strategy aims to coordinate a variety of development and social inclusion policies and programmes that may enhance economic opportunities for the poor.

As part of the strategy, the Cooperation Fund for Social Development (FONCODES) has designed and piloted a demand-driven project that provides a bundled intervention that could hardly be implemented in Peru by a specific ministry, given its cross-sectoral nature. The project is called *Haku Wiñay*, a Quechua name that can be translated as 'we are going to grow' or 'growing together'. It is also called *Mi Chacra Emprendedora* ('My Entrepreneurial Farm'), which emphasises its productive and market-oriented objectives. FONCODES faces multiple challenges, not only to design a programme with the objective of bundling together an array of interventions but also to devise a monitoring and evaluation process that allows the design to be understood and adjusted, in order to scale up the intervention, provided it proves successful. This article attempts to contribute to this process.

The intervention

Haku Wiñay targets rural households living in extreme poverty. To maximise its efficacy, the intervention is being deployed in the same rural areas where *Juntos*, the Peruvian conditional cash transfer (CCT) programme, is being implemented. It is part of a joint strategy aimed at strengthening households' ability to sustainably overcome extreme poverty.

The project focuses on the development of productive and entrepreneurial skills to help households strengthen their income generation and diversification strategies, as well as to enhance food security. To achieve these goals, the project comprises four components:

- 'Family production systems', designed to help households adopt simple and low-cost technological innovations. (The programme provides productive assets, technical assistance and training);
- 'Healthy housing', aimed at promoting healthy daily living practices by

implementing safe kitchens and fostering access to safe water and efficient solid waste management;

- 'Inclusive rural businesses', designed to promote business initiatives and entrepreneurship by funding and organising grants competitions, and by helping those interested in participating to organise and prepare business plans to pursue those grants. (This component encourages participants to associate with others to approach local markets more efficiently—the grants fund technical assistance and training); and
- 'Financial education', involving training and assistance to promote formal savings, especially among those who receive cash transfers from *Juntos*.⁴

These components are implemented by *núcleos ejecutores*, which are executive groups organised by the community under the supervision and support of FONCODES. These groups receive money transfers from FONCODES to fund the project activities, and are responsible for identifying participant households, approximately 100 per group, ensuring their involvement and co-funding commitment (in money, construction materials, time or work) and organising the subsequent activities. These activities involve purchasing assets and hiring teachers and facilitators, according to the local planning file previously approved by FONCODES.

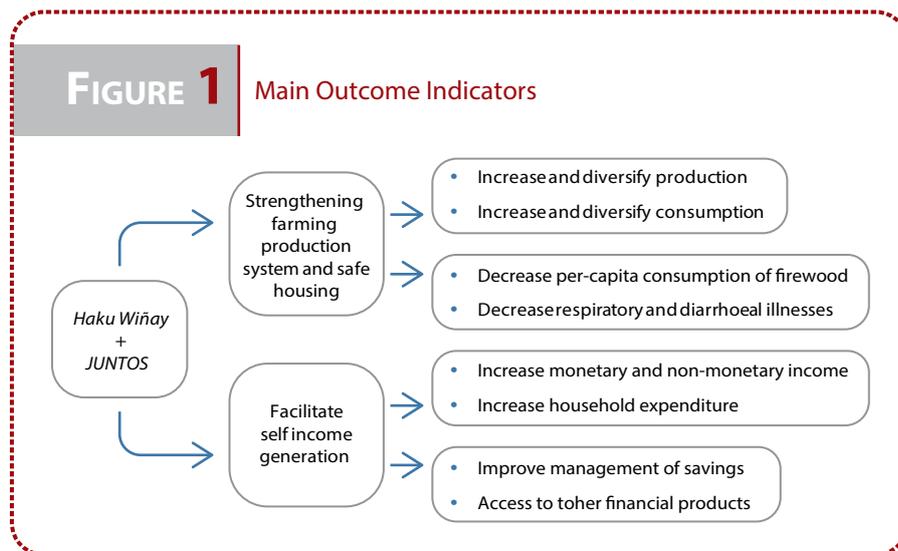
The government investment per family farmer adds up to a maximum of PEN3500 (around USD1300) throughout 36 months of intervention. The project was first piloted in two districts, Vinchos and Chuschi, and benefited 930 family farmers. It was later expanded and by March 2014 had reached 91,124 households across 732 rural towns and villages. According to FONCODES planning, between 2013 and 2016 the project should reach

157,000 rural households across 2100 rural towns and villages.

Several characteristics, including both the project’s strategy to develop farmers’ capabilities and entrepreneurship and its administrative design, make *Haku Wiñay* particularly interesting as a case study. In terms of the intervention strategy, the programme follows a learning-by-doing approach. To develop the capabilities of family farmers, the project transfers assets and facilitates the provision of technical assistance and training, helping beneficiaries to adopt technologies and eventually adapt them to their interests and conditions. *Yachachiqs*⁵ are key to achieving this goal in the first three components; these are usually family farmers who know how to apply the technologies in local lands and who have experience teaching other family farmers. Regarding the fourth component, the implementing groups hire financial facilitators (financial *yachachiqs*)—who are usually professionals instead of family farmers, as they need to have financial services training experience.

In terms of administrative design, the *núcleos ejecutores*, which are managed by local representatives—instead of government officials—enhance flexibility in the project implementation and encourage local control and monitoring by the local population. While the first two components are implemented at each family farm and are quite homogeneous across participants within a *núcleo ejecutor*, the third component (inclusive rural businesses) is a group-based competition where money is allocated to the winner. Thus, the institutional design supporting the allocation of grants plays a key role in ensuring the programme’s success, legitimacy and replicability. The Local Committee for Fund Allocation (CLAR) is an institutional design devised during earlier public interventions, supported by the International Fund for Agriculture. A CLAR is a committee comprising representatives of the local government, the *núcleo ejecutor* and FONCODES, as well as other locally respected social actors (farmers, representatives of non-governmental organisations etc.).

Proposals are presented in public to the committee and the local population;



Source: Authors’ elaboration.

this might be done through role-playing performances, on a blackboard or by any other means chosen by the competitors. The CLAR announces the winners at the same event, strengthening social capital and transparency.

Ongoing evaluation strategy

Fund by the Ford Foundation, GRADE is leading the evaluation of *Haku Wiñay* according to an agreement between FONCODES and the MIDIS Evaluation Office. The evaluation strategy proposed by GRADE encompasses a qualitative and quantitative approach that takes advantage of the project intervention schedule. The evaluation study attempts to look into two broad subjects: the impact of *Haku Wiñay* on the welfare of participant households, and the local processes of resource allocation taking place while the project unfolds, including the CLAR experience. The evaluation takes into account the joint implementation of two public projects (*Haku Wiñay* and *Juntos*).

The impact on household outcomes

The quantitative component of the evaluation strategy is based on a comparison of the trajectories of a treatment and a control group of family farmers. The treated group receives the *Haku Wiñay* intervention in addition to the *Juntos* CCT, while the control group receives only the CCT. Several outcomes will be evaluated, ranging from income generation strategies to the prevalence of respiratory illnesses (see Figure 1). It is worth emphasising that treatment

intensity varies across treated households and is far from being randomly distributed (some families may not be interested in certain technologies, some may already be implementing some of the technologies that *Haku Wiñay* offers, not all participants will win a grant competition for inclusive businesses etc.). Thus, part of the challenge of this evaluation is defining a scale or index that measures how extensively any given household has been treated by the project.

All of the communities selected by FONCODES to be treated between 2013 and 2016 were listed and grouped in pairs according to their similarities in terms of productive, social and economic conditions. These communities were randomly assigned to treatment and control groups. The treatment group was part of the group to undergo the intervention in 2013, whereas it was agreed to treat the control group in 2016, when the evaluation will already have finished.

The baseline survey was conducted in March 2013, and the project started in August 2013. The second, follow-up visit is planned for August 2015. A total of 459 households were surveyed across eight districts; 231 households were set to be treated by the project after the baseline survey (treatment group), and 228 households would not participate in the project until the end of the evaluation (control group). Additionally, 36 community surveys were conducted in towns and villages where the households are located.

In addition, three pairs of communities were randomly chosen to undertake the qualitative study (each pair consisting of a control community and a treatment community). These were selected from the group of communities surveyed in the quantitative study. Four topics are being studied with a qualitative approach: (i) the CLAR experience (grant competition); (ii) coordination issues between *Juntos* and *Haku Wiñay* implementers; (iii) empowerment changes within the household—given that *Juntos* has a clear positive bias towards mothers but *Haku Wiñay* tends to affect men and women differently in each component; and (iv) changes in perception regarding food security.



Photo: d.j. a., Hospital Regional de Ayacucho, 2007, Peru <<https://goo.gl/AWAUK0>> <<https://goo.gl/cefU8>>.

Evaluation of an early phase of *Haku Wiñay*: the case study of Vinchos and Chuschi

Even though the evaluation described is still under way and no results can be shared yet, the evaluation of *Haku Wiñay*'s pilot phase is under way.

The baseline study for Vinchos and Chuschi (two districts in Ayacucho, a South Andean region) was designed, sampled and collected by FONCODES in late 2012. Later on, FONCODES asked GRADE to collect the follow-up survey and analyse the first impacts of the intervention. The main problem to be dealt with was that control households had been selected among treated households' neighbours; thus, at least some of them were suspected to have benefited directly or indirectly from *Haku Wiñay* (18 per cent of the control group explicitly acknowledged having partially benefited from the project). Since a control group should, by definition, not benefit from the project under evaluation, such households were hardly suitable. Thus, we chose to interview all the beneficiaries of *Haku Wiñay* and only a sub-sample of the control households—only those that shared similar pre-treatment characteristics with treated households. This was accomplished by pairing treated households with the best controls using propensity score matching techniques.

First impacts in Vinchos and Chuschi and evaluation challenges

As previously mentioned, we attempted to revisit all treated and a sub-sample of control households (provided they were

similar to the treated group). Interestingly, attrition rates were 6 per cent for the treatment group and almost 12 per cent for the control group.⁶ This difference could be attributed to the project if the treated households' probability of migrating decreases due to the new economic opportunities brought about by the intervention.

When we compared the treated and control groups, combining difference-in-differences estimation with propensity score matching, we found the following results that are worthwhile highlighting:

- Total family income grew for both the treated and control groups, but it grew more for the treated group (an additional PEN1406, around USD500). This difference is statistically significant.
- Although the relative contribution of different income sources at the baseline was very similar between treated and control groups, after two years the shares of income derived from agricultural production, animal husbandry and, to a lesser extent, processed agricultural or animal products grew more for the treated group.⁷ We did not find significant changes that could be attributed to new businesses (handicrafts and services).
- Along with the increase in family income, the qualitative perception of well-being improved in households; in

addition, while 65 per cent of treated households exhibited an increase in family income over the two-year period, only 51 per cent of the control group reported such an improvement. This 14 percentage point difference is statistically significant.⁸

- Regarding changes in households' endowment of assets, the increase in the number of chickens and guinea pigs owned by the treated group was found to be larger than the project's transfer of such assets. However, this remains a small part of the total livestock value.
- Although not strictly a direct effect of the intervention, the treated group reports a weekly production of 33 litres of milk higher than the baseline. This improvement in productivity is 18 litres higher than the one reported by the control group. Given the heterogeneity of the sample, however, this result is only marginally statistically significant.
- Although changes in health and nutrition are hard to assess, it is interesting to highlight that 79 per cent of treated households perceived that family health and nutrition had improved since the baseline. This is 11 percentage points higher than matched controls and a statistically significant difference. We also found improvements in the quality of food intake (increased consumption of

animal protein, fruits, legumes and other vegetables). Again, these differences are larger and more significant for the treated group than the control group.

- We also found a significant reduction in the occurrence of respiratory problems for children under 5 years old when we compared treatment and matched controls. We found no differences in other age groups (5–11, 12–64 and 65+). The reduction in the occurrence of respiratory problems could be associated with the significant reduction of firewood consumption in the treated group when compared to the matched control group. Finally, we did not find statistically significant differences in the frequency of episodes of diarrhoea in any of the age groups (with the only exception of a marginal improvement in the 5–11 group).
- As for changes in financial literacy, we found sizeable improvements in knowledge. There was also an improvement in the level of confidence in the financial system among the treated households (from 2 to 3.5 on a 10-step scale). This change is statistically significantly larger than the improvement reported by the control group (from 2.1 to 2.8 on the same 10-step scale). Although a significant improvement in statistical terms, these results show a low level of confidence in the financial system for both groups.

Based on preliminary evidence, these results show statistically significant and sizeable improvements in overall income (mostly agricultural income) that could be attributed to the intervention. There are also significant improvements in perceptions, empowerment, financial literacy, nutritional and some health outcomes when we compare the treated group with matched controls.

Nevertheless, we have no evidence in this preliminary study of major changes in income diversification patterns or improved ability to connect with markets that could be attributed directly to *Haku Wiñay*.

This may be due to implementation delays, the short time of exposure to the intervention or potential impact heterogeneities. Unfortunately, studying these issues would require a more suitable sample and better information than is currently available. Furthermore, although we have found that the increased endowment of small animals is larger than the project's asset transfer, additional information and analysis is needed. In particular, we need to evaluate key flow indicators such as breeding, mortality, reposicion and consumption, which may shed light on medium-term productive dynamics and sustainability. We believe that the ongoing evaluation will gather enough information to contribute to such analysis.

Regarding the way the project is being executed within the Peruvian public

sector, it is important to highlight that the implementing strategy based on the *núcleo ejecutor* has shown great effectiveness in circumventing the legal problems that rural development projects face in Peru when trying to develop a cross-sectoral strategy.

Sectoral ministries are not allowed to spend funds on activities that are outside of their mandate. In addition, the *núcleo ejecutor* fosters the empowerment of local actors, enhancing the demand-driven nature of the project.

On the other hand, it is important to recognise that the implementation of the project has been slower than expected in areas where FONCODES had no prior experience. This was the case for the components focused on promoting small business opportunities and financial education. FONCODES has already made adjustments in this area.



García Carpio, Juan Manuel, and Céspedes Reynaga, Nikita. 2011. "Pobreza y crecimiento económico: tendencias durante la década del 2000." *Working Paper No. 2011-21*. Lima: MEF BCRP. Mimeo. <<http://www.bcrp.gob.pe/docs/Publicaciones/Documentos-de-Trabajo/2011/Documento-de-Trabajo-21-2011.pdf>> (accessed 7 August 2015).

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2. Accounting for 85 per cent of the reduction in poverty, according to the authors' estimates.
3. Public transfers are critical for populations living in extreme poverty, whereas public investment aiming to reduce gaps in the provision of public goods and services are key for both the extremely and non-extremely poor.
4. Training materials have been developed by *Proyecto Capital*, an initiative coordinated by the Instituto de Estudios Peruanos and Fundación Capital, and supported by the Ford Foundation and Canada's International Development Research Centre (IDRC).
5. 'Teacher' in Quechua.
6. Partly replaced by second-best matches.
7. Other income sources include cash transfers, handicrafts, and waged-income in both agricultural and non-agricultural activities.
7. Given that this higher improvement in perception of well-being comes along with a higher improvement in reported family income, we are confident that this finding is more than a mere placebo effect.



Photo: d.j. a., 2007, Ayacucho, Peru. <<https://goo.gl/3lOzLk>><<https://goo.gl/cefU8>>.