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*Series on Conducive Policy Environment for
Small Enterprise Employment*

Public Policy and Employment in Micro and Small Enterprises in Peru

by

Juan Chacaltana

InFocus Programme on Boosting Employment
through Small Enterprise Development
Job Creation and Enterprise Department



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FOREWORD

This Working Paper deals with the influence of public policies on the employment situation in Micro and Small Enterprises (MSEs) in Peru.

It is part of the series on “Conducive policy environment for small enterprise employment” by the ILO’s InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED). A Spanish version has been published by the Multidisciplinary Team for the Andean Countries in Lima¹.

Policies, institutions and regulations that provide a conducive environment for small enterprises can make a substantial contribution to employment creation. In order to reach a better understanding of how policies in different countries influence the quantity and quality of employment in MSEs, ILO/SEED initiated an international comparative research project in seven countries: Chile, Guinea, Pakistan, Peru, South Africa, Tanzania and Viet Nam.

The results of the field research are made available in the individual Country Reports for these countries. A forthcoming ILO publication² will synthesize the main findings across these seven countries.

In collaboration with the ILO Multidisciplinary Team for the Andean Countries, the study in Peru was carried out by Juan Chacaltana, senior researcher at CEDEP (Centre of Studies for Development and Participation).

We sincerely hope that this analysis helps clarify the role of small enterprise in the country’s development, through its significant findings concerning policy impact on employment in the MSE sector, the evidence surrounding the role of MSEs in the creation and destruction of employment, and the recommendations made by the author on how to achieve the generation of decent work in the MSE sector in Peru.

Daniel Martinez
Director
Multidisciplinary Team
for the Andean Countries
ILO, Lima

Kees van der Ree
Director a.i.
InFocus Programme on Boosting Employment
through Small Enterprise Development
ILO/SEED, Geneva

¹ Juan Chacaltana J., *Políticas Públicas y Empleo en las Pequeñas y Microempresas en El Perú* (ILO Lima, 2001).

² G. Reinecke and White, S: *Policies for small enterprises: Creating the right environment for good jobs* (ILO Geneva, forthcoming).

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TABLE OF CONTENTS

| | |
|---|-----------|
| Foreword | iii |
| Acknowledgements | iv |
| List of abbreviations | ix |
| Executive Summary | xiii |
| Introduction | 1 |
| I. The Economic and Labour Market Context | 3 |
| 1. Economic structure and performance | 3 |
| 1.1 Trends in production | 3 |
| 1.2 Composition of production | 7 |
| 2. The labour market | 9 |
| 2.1 Some long-term factors | 9 |
| 2.2 Recent developments: The labour market in the 1990s | 10 |
| II. Institutional and Legal Framework | 19 |
| 1. Institutional framework | 19 |
| 2. Overview of legislation and policies | 23 |
| 2.1 Specific laws for MSEs | 23 |
| 2.2 Registration and business regulations | 27 |
| 2.3 Tax policies | 28 |
| 2.4 Labour laws | 33 |
| 2.5 Trade policies | 35 |
| 2.6 Financing | 36 |
| 2.7 Innovation and training policies | 37 |
| 3. Characteristics of the legal framework | 38 |
| 3.1 General evaluation | 38 |
| 3.2 Compliance | 40 |
| 3.3 Policy impact according to MSE entrepreneurs | 43 |
| III: MSE Job Quality | 49 |
| 1. Definitions | 49 |
| 2. MSE employment structure | 51 |
| 2.1 MSE participation in the economy and in the labour market | 51 |
| 2.2 Evolution of MSE employment in the 1990s | 54 |
| 2.3 MSE employment composition | 57 |
| 3. MSE job quality | 58 |
| 3.1 Remuneration and workday | 58 |
| 3.2 Fringe benefits | 60 |
| 3.3 Collective rights: Freedom of association | 61 |
| 3.4 Work contract and employment duration | 62 |

| | | |
|-------------------------|---|-----------|
| 3.5 | Social protection: Health care and pension plans | 64 |
| 3.6 | Training..... | 67 |
| 4. | Employment dynamics in different enterprise sizes – Formal employment evidence | 69 |
| 4.1 | Employment and net employment (stock versus flow)..... | 69 |
| 4.2 | Job creation and job destruction | 70 |
| IV. | Conclusions and Recommendations..... | 73 |
| | Bibliography..... | 77 |
| Annexes: | | |
| Annex 1: | Interviews conducted in the course of this report | 81 |
| Annex 2: | Statistical data: Macro-economic environment | 83 |
| Annex 3: | Mapping of main laws and regulations affecting MSEs | 85 |
| Annex 4: | Coverage of the principal databases used..... | 93 |
| Annex 5: | Evaluation of the policy environment by key informants..... | 95 |
| Annex 6: | Statistical data: Employment and job quality in Peru..... | 97 |
| Annex 7: | MSE concentration map..... | 107 |
| List of tables: | | |
| Table 1.1: | Synthesis of labour reform – Individual rights of workers..... | 11 |
| Table 1.2: | Urban Peru – Quarterly working-age population movement (%), 1996..... | 16 |
| Table 2.1: | Institutional support framework for MSEs | 19 |
| Table 2.2: | A comparison of current tax regimes..... | 30 |
| Table 2.3: | Monthly RUS contributions (PEN) | 31 |
| Table 2.4: | Collective labour rights – General regime and specific regimes for MSEs..... | 33 |
| Table 2.5: | Individual labour rights – General regime and specific regimes for MSEs..... | 34 |
| Table 2.6: | Lima – Reasons for MSE compliance or non-compliance with regulations | 41 |
| Table 2.7: | Metropolitan Lima – Determining factors for MSE compliance..... | 42 |
| Table 3.1: | Labour market structure..... | 52 |
| Table 3.2: | Lima – Private sector employment according to worker’s sex and size of enterprise, 1991, 1995, 2000 | 53 |
| Table 3.3: | Private employment composition in major cities, according to enterprise size, 2000..... | 53 |
| Table 3.4: | Lima – Employment composition within MSEs, according to sex | 57 |
| Table 3.5: | Metropolitan Lima – Evolution of real income, hours worked, and hourly wage..... | 59 |
| Table 3.6: | Metropolitan Lima – Composition of employment by type of contract, sex and enterprise size | 63 |
| Table 3.7: | Dynamics of employment and number of enterprises by enterprise size, 1999-2000 | 71 |
| Table 3.8: | Formal employment variation by enterprise size, 1999-2000 | 71 |
| Table 3.9: | Variations in formal paid employment by source, 1999-2000 | 72 |
| List of figures: | | |
| Figure 1.1: | Variation of GNP and employment, 1990-2000..... | 4 |
| Figure 1.2: | Evolution of foreign investment and privatization, 1990-2000 | 6 |
| Figure 1.3a: | Composition of GNP (percentage, average covering 1990 to 2000)..... | 8 |
| Figure 1.3b: | Evolution of GNP by economic sector (1990-1999, 1990=100)..... | 8 |
| Figure 1.4: | Evolution of GNP, employment and labour income, 1990-1999 | 14 |
| Figure 1.5a: | Metropolitan Lima – Employment growth by economic activity, 1990-1998 | 15 |
| Figure 1.5b: | Metropolitan Lima – Employment growth by enterprise size, 1990-1998..... | 15 |
| Figure 1.6: | Metropolitan Lima – Union affiliation of private paid workers, 1990-2000..... | 16 |
| Figure 1.7: | Metropolitan Lima – Type of contract, percentage structure, 1991-1999..... | 17 |
| Figure 2.1: | Registration sequence for individuals and juridical persons | 27 |
| Figure 2.2: | Tax system outline..... | 29 |

| | |
|---|----|
| Figure 2.3: Qualified informants: Evaluation of policies and laws..... | 38 |
| Figure 2.4: Lima – MSE compliance index – Number of legal obligations complied with by enterprises..... | 40 |
| Figure 2.5: Lima – Correlation between inspection and compliance..... | 41 |
| Figure 2.6a: Effects perceived by MSE entrepreneurs on employment volume due to changes in the market and economic policies, 2000-2001 | 44 |
| Figure 2.6b: Effects perceived by MSE entrepreneurs on job quality due to changes in the market and economic policies, 2000-2001 | 45 |
| Figure 2.7: Good labour practices in MSEs, 2001 | 46 |
| Figure 2.8: Why do MSEs carry out good labour practices? | 46 |
| Figure 2.9a: How beneficial for MSEs are good labour practices at the workplace? Perceptions during 2000-2001 | 47 |
| Figure 2.9b: How beneficial for MSEs are good labour practices at the workplace? Expectations for 2002-2003 | 48 |
| Figure 3.1a: Urban Peru – Log number of workers in enterprises (kernel density), 2000..... | 50 |
| Figure 3.1b: Urban Peru – Employment by enterprise size, 2000 | 51 |
| Figure 3.2: Lima – Evolution of employment by enterprise size, 1986-2000..... | 54 |
| Figure 3.3: Correlation between GNP variations and MSE employment shares, 1986-2000..... | 55 |
| Figure 3.4: Metropolitan Lima – Distribution of labour income for private paid workers, 1990-2000... | 56 |
| Figure 3.5: Metropolitan Lima – Enterprises with at least one paid worker and enterprises with only non-paid workers..... | 57 |
| Figure 3.6: Metropolitan Lima – Evolution of real income of private paid workers by enterprise size, 1991-2000..... | 58 |
| Figure 3.7: Metropolitan Lima – Weekly hours worked by full-time private paid workers, according to sex, 1990-2000..... | 59 |
| Figure 3.8a: Metropolitan Lima – Labour income components (salary and benefits) 1999..... | 60 |
| Figure 3.8b: Metropolitan Lima – Share of non-wage benefits in labour income, 1991-1999..... | 60 |
| Figure 3.9a: Metropolitan Lima – Union affiliation rates of private paid workers by sex, 1990-2000 | 61 |
| Figure 3.9b: Metropolitan Lima – Union affiliation rates by enterprise size, 1991-1999..... | 62 |
| Figure 3.10a: Metropolitan Lima – Employment tenure (months) by sex, 1990-2000 | 64 |
| Figure 3.10b: Metropolitan Lima – Employment tenure (months) by enterprise size, 1990-2000 | 64 |
| Figure 3.11a: Metropolitan Lima – Health insurance affiliation rates by sex, 1990-2000..... | 65 |
| Figure 3.11b: Metropolitan Lima – Health insurance affiliation rates by enterprise size, 1990-2000 | 65 |
| Figure 3.12a: Metropolitan Lima – Affiliation to the pension system by sex, 1990-2000..... | 66 |
| Figure 3.12b: Metropolitan Lima – Affiliation to the pension system according to enterprise size, 1990-2000..... | 66 |
| Figure 3.13: Metropolitan Lima – Workers receiving training within the enterprise, by sex, 1995, 1997, 1999 | 67 |
| Figure 3.14a: Metropolitan Lima – Share of workers receiving training within enterprises, 1995-2000 ... | 68 |
| Figure 3.14b: Metropolitan Lima – Share of workers who received training financed by enterprises, 1996..... | 68 |
| Figure 3.15: Formal employment stock and flows, 1999-2000 | 69 |
| Figure 3.16: Distribution of the magnitude of formal employment variation, 1999-2000..... | 70 |
| Figure 3.17: Duration of enterprises, according to enterprise size..... | 72 |

ABBREVIATIONS

Translator's note: Names of institutions have been translated into English for ease of reference. Since most institutions do not have standard translations for their names, the original name is also rendered in Spanish.

| | |
|-----------|---|
| ADEC-ATC | Asociación Laboral para el Desarrollo (Labour Association for Development) |
| APEMIFE | Asociación de Pequeños y Medianos Industriales del Perú (Peruvian Association of Small and Medium-sized Businesses) |
| BCRP | Banco Central de Reserva del Perú (Central Reserve Bank of Peru) |
| BDS | Business Development Service |
| BONOPYME | Ministry of Labour and Social Development Programme which provides small businesses with subsidies for training |
| CA | Contrato de Aprendizaje (Learning Contracts, similar to apprenticeships) |
| CAN | Comunidad Andina de Naciones (Andean Community of Nations) |
| CEDEP | Centro de Estudios para el Desarrollo (Centre of Studies for Development) |
| CFLJ | Convenios de formación laboral juvenil (Youth Job Training Agreements) |
| CINSEYT | Centro de Investigación Sociales Económicas y Tecnológicas (Social Economic and technological Investigation Centre) |
| CITE | Centro de Innovación Tecnológica (Technological Innovation Centre) |
| CMAC | Cajas Municipales de Ahorro y Crédito (Municipal Savings and Loans Associations) |
| COFIDE | Corporación Financiera de Desarrollo (Development Finance Corporation) |
| COFOPRI | Comisión para la Formalización de a Propiedad Informal (Committee for the Formalization of Informal Property) |
| CONCYTEC | Consejo Nacional de Ciencia y Tecnología (National Science and Technology Council) |
| CONFIEP | Confederación Nacional de Instituciones Empresariales Privadas (National Confederation of Private Business Institutions) |
| CONITE | Comité Nacional de Inversiones y Tecnologías Extranjeras (National Commission of Foreign Investment and Technology) |
| COPEI-SNI | Comisión de Pequeña Industria de la Sociedad Nacional de Industria (National Industrial Society Small Industry Commission) |
| COPEME | Consortio de Organizaciones de Apoyo a la Pequeña y Microempresa (Small and Micro-enterprise Support Organization Consortium) |
| CRAC | Cajas Rurales de Ahorro y Crédito (Rural Savings and Loans Associations) |
| CTS | Compensación por Tiempo de Servicio (Compensation for the length of time worked) |
| DEMUNA | Defensorías del Niño y el adolescente (Organizations for the Defence of Children and Adolescents) |
| DL | Decreto ley (Law Decree) |
| DS | Decreto Supremo (Supreme Decree) |
| DU | Decreto de Urgencia (Emergency Decree) |
| EAP | Economically Active Population |
| EDPYME | Empresas de Desarrollo de las Pequeñas y Microempresas (Small and Micro-Enterprise Development Enterprises) |
| ENAHO | Encuesta Nacional de Hogares (National Household Survey) |
| EPS | Entidades Prestadoras de Salud (Health Service Entities) |
| ESSALUD | Entidad Supervisora de Servicios de Salud (Health Service Supervising Agency) |
| FENAPI | Federación Nacional de Pequeños Industriales (National Federation of Small Industries) |
| FLJ | Formación Laboral Juvenil (Youth Labour Training Conventions) |
| FOGAPI | Fondo de Garantía para la Pequeña Industria (Small Industry Guarantee Fund) |

| | |
|----------------|--|
| FONAVI | Fondo Nacional de Vivienda (National Housing Fund) |
| FONCODES | Fondo de Compensación y Desarrollo (Compensation and Development Fund) |
| FONREPE | Fondo de Respaldo a la Pequeña Empresa (Fund for Supporting Small Enterprises) |
| FOPE | Fondo de Promoción de la Pequeña Empresa (Small Enterprise Development Fund) |
| FOPEI | Fondo de Promoción de La Pequeña Empresa Industrial (Small Industrial Enterprise Development Fund) |
| GRADE | Grupo de Análisis para el Desarrollo (Analysis for Development Group) |
| IES | Impuesto extraordinario de Solidaridad (Extraordinary Solidarity Tax) |
| IGV | Impuesto General a las Ventas (General Sales Tax) |
| ILO | International Labour Organization |
| INDECOPI | Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (National Institute for the Defence of Competition and the Protection of Intellectual Property) |
| INEI | Instituto Nacional de Estadística e Informática (National Institute of Statistics and Data) |
| IPM | Impuesto de promoción municipal (Municipal development tax) |
| IPSS | Instituto peruano de Seguridad Social (Peruvian Social Security Institute) |
| INEI | Instituto Nacional |
| IR | Impuesto a la renta (income tax) |
| IUS | Impuesto Único Simplificado (Simplified Unified Tax) |
| LM | Licencia municipal (Municipal Licence) |
| LMW | Legal Minimum Wage |
| MEF | Ministerio de Economía y Finanzas (Ministry of the Economy and Finance) |
| Mibanco | Banco de la Microempresa (Micro-enterprise Bank) |
| MINSA | Ministerio de Salud (Ministry of Health) |
| MITINCI | Ministerio de Industria, Turismo, Integración y Negociaciones Comerciales e Internacionales (Ministry of Industry, Tourism, Integration and International Trade Negotiations). |
| MSE | Small and Micro-enterprise |
| MSP ADEX – AID | Proyecto de apoyo al microempresario y el pequeño productor (Project to support the micro-entrepreneur and the small producer) |
| MTPS | Ministerio de Trabajo y Promoción Social (Ministry of Labour and Social Development) |
| NGO | Non-government organization |
| PCM | Presidencia del Consejo de Ministros (Presidency of the Council of Ministers) |
| PCR | Programa de Caminos Rurales (Rural Road Programme) |
| PPME | Programa de Apoyo a las Pequeñas Empresas (Programme to Back Small Enterprise) |
| PPP | Prácticas pre-profesionales (Pre-professional Internships) |
| PRODAME | Programa de Autoempleo y Microempresa (Self-employment and Micro-enterprise Programme) |
| PROFECE | Programa Femenino de Consolidación del Empleo (Women’s Employment Consolidation Programme) |
| PROMPEX | Comisión para la Promoción de Exportaciones (Commission for the Development of Exportation) |
| PROMPYME | La Comisión de Promoción de la Pequeña y Microempresa (Commission for the Development of Small and Micro-Enterprise) |
| RER | Régimen Especial del Impuesto a la Renta (Special Income Tax Regime) |
| RUC | Registro único de contribuyente (Tax-Payer’s Registry) |
| RUS | Régimen único simplificado (Unified Tax Regime) |
| SAT | Seguro de Accidentes de Trabajo (Occupational Accident Insurance) |
| SBS | Superintendencia de Banca y Seguros (Superintendency of Banking and Insurance) |

| | |
|-------------------|--|
| SENATI | Servicio Nacional de Adiestramiento en Trabajo Industrial (National Industrial Job Training Service) |
| Services | Special services enterprises |
| SIEM | Sistema de Información Empresarial (Business Information System) |
| SNI | Sociedad Nacional de Industria (National Industrial Society) |
| SPP | Sistema Privado de Pensiones (Private Pension System) |
| SUNAD/ ADUANAS | Superintendencia Nacional de Administración Aduanera (National Customs Administration Superintendency) |
| SUNARP | Superintendencia Nacional de Registros Públicos (National Superintendency of Public Records) |
| SUNAT | Superintendencia Nacional de Administración Tributaria (National Tax Administration Superintendency) |
| TUPA | Texto único de procesos administrativos (Unified Text of Administrative Procedures) |
| UIS | Impuesto Único Simplificado (Simplified Unified Tax) |
| UIT | Unidad impositiva tributaria (Tax Unit, its value in 2002 was S/. 3,100 or approximately US\$ 886) |
| WAP | Working Age Population |

EXECUTIVE SUMMARY

In the past 10 years, the economy in Peru changed from a growth policy based on government protection to a free market economy based on individual initiative.

The reforms implemented covered almost all areas of the economy. This report contains an analysis of these changes and their influence on job quality in micro and small enterprises (MSEs).³ The analysis encompasses seven policy areas: specific laws for promoting the MSE sector, business registrations, labour laws, taxation, trade policies, financing policies and enabling and innovation policies. Paradoxically, some of the reforms implemented (especially those related to the labour market) had a completely opposite effect to that desired. The result was a significant deterioration of job quality in MSEs – lower levels of social security benefits and more insecurity and informality in employment (despite more flexible regulations). One explanation suggested for this phenomenon is that the reforms were accompanied by a significant reduction in the role of Peruvian labour market institutions – among which were the workers’ unions and the labour inspection capacity of the Ministry of Labour and Social Development. This lack of capacity weakened the workers’ ability to bargain for better working conditions.

This report also explores the relationship between the regulatory framework for MSEs and the employment decisions that entrepreneurs take. A recent study made by the Ministry of Labour and Social Development and the International Labour Office showed that the regulatory framework has little direct influence on MSE decisions concerning job quality and quantity.⁴ The regulatory framework acts indirectly through the final goods market in which each MSE participates.

MSE entrepreneurs consider that the policy environment has no effect on their employment decisions or that, where it does exist, its effects are negative. For example, some MSE employers have found certain labour practices beneficial both for them and their workers (productivity incentives, salaries based on efficiency). However, the highly flexible labour framework discourages long-term employment relationships and thus has a negative influence on the use of these practices. In the view of employers, it does not make sense to spend money on workers when the expected labour relationship is short- and not long-term.

Based on these findings, a proposed alternative is the creation of labour market institutions and the promotion of more permanent employment relationships – good labour practices that could benefit both workers and employers. Such institutionalization must include a new labour movement culture, leaving confrontation behind in order to move towards cooperation and dialogue. It must also encompass the strengthening of labour inspection. One idea proposed in this report is the decentralization of the labour inspection functions of the Ministry of Labour to local government offices.⁵ This would make the discovery of labour infractions more likely and also help increase the bargaining power of workers.

³ MSE refers to micro and small enterprises.

⁴ Micro and Small Enterprise Survey (MTPS-ILO, 2001).

⁵ These proposals concur with those given in Chavéz (1998).

INTRODUCTION

Discussion on the small enterprise sector in Peru has been ongoing for a long while. The first studies date from the 1960s, when interest was focused on the migration phenomenon and how this produced important changes in the Peruvian labour market. The new inhabitants of the cities began to build small (basically family) businesses, repeating to some extent the logistics of farm production (Adams and Valdivia, 1992).

Over the years, different debates have engaged researchers. One notable example is the formal versus informal sector. Without describing this debate in depth, it suffices to say that, after more than three decades of studies and discussions, no significant results – at least as far as the labour market is concerned – have emerged. Even today, there is still no clear consensus in relation to such basic matters as the definition of formality.⁶ This has led to limitations in policies or activities in this direction. Since “formal” was the keynote focus of the discussion, the most notable policy result from this type of debate has been the well-known “formalization” programmes for certain productive units.

Several policy efforts have been made in this direction, for example, the simplification of specific administrative procedures and attempts to introduce a single registration to formalize informal enterprises. Almost no studies refer to the effects of this type of policy on the performance of MSEs – and even less on the employment they generate. On the contrary, in general no significant reduction has been observed in the level of informality in Peru.

Currently, the debate seems to focus not on how to formalize small production units but rather on how to strengthen them and to help them become more competitive and sustainable. The idea is simple. The development of this sector is necessary because it employs more than 60 per cent of the total number of workers in Peru and contributes to more than 40 per cent of GNP. There is a large consensus on the need for MSE development, since the development of the country itself would seem to depend upon it.

Thus, direct efforts are becoming even more important. Recent debate has been oriented towards how to develop the sector as efficiently as possible and without discouraging private initiatives. The interventions of most interest have been related first to providing financial services and then non-financial services (business development services). According to the present Minister of Labour, the Government invested approximately US\$ 220 million in the MSE sector in 1997 (Villarán and Chincano, 1998). In 2001, this investment increased to US\$ 330 million.⁷ Moreover, the new Government has announced the creation of a Vice-Ministry of Small and Micro-Enterprise (Presidential Address, July 28, 2001).

The assumption behind all this activity and effort has been that support to the MSE sector would improve its economic performance and, at the same time, permit the creation of more jobs and benefit workers already employed by achieving better working conditions. Unfortunately, this last point has not been verified. On the contrary, findings show that employment in the MSEs has numerous, severe symptoms of precarious job quality: low

⁶ Here, there is the issue of alternative definitions. One of these comes from the ILO – PREALC tradition and is based on the size of the enterprise, as a proxy of enterprise productivity (for example, Carbonetto and others, 1988). Another comes from the work of Hernando de Soto (1984) who associates formality with legality. Another more recent one originated in the ILO Labour Statistics Conference (1993).

⁷ Although there are no precise estimates, investments by private national and international organizations and donors are probably similar in amount or even larger. In regard to the US\$ 330 million mentioned, see the daily “*El Comercio*” dated August 19, 2001.

salaries, low levels of social security benefits, exclusion from unions, little or no training, and clearly deplorable conditions of work.

Therefore, to what extent does direct support to MSEs result in better benefits for their workers? In other words, is it possible to improve job quality in this sector through specific actions or policies? To what degree do indirect policies also influence it?

The present report examines the role played by policies – direct and indirect – on the behaviour of MSEs and particularly on the job quality they generate. This analysis is divided into four chapters. The macroeconomic context and the labour market are analysed in Chapter I, with emphasis on the main changes that have taken place in the past 10 years. The institutional and current legal framework concerning MSE development are analysed in Chapter II. Chapter III describes recent evidence of the quantity and quality of employment generated by this sector. Finally, Chapter IV provides the conclusions of this analysis and makes some recommendations for future improvement in the MSE sector in Peru.

I. THE ECONOMIC AND LABOUR MARKET CONTEXT

This chapter outlines the main economic and labour market changes observed in Peru in the past 10 years, a period in which the economy changed from a growth policy based on government protection – enforced until 1990 – to a free market economy based on individual initiative. There is still a lot of discussion surrounding the benefits and limitations of this change. The arguments in favour point out that this model attracts foreign investment and resulted in accelerated growth in certain years. The arguments against it indicate that the reform was excessive and that the resulting growth was not sustained and, more importantly, did not lead to economic well-being for the country.

In any case, it is certain that all the changes and reforms implemented must have had some effect on the performance of the MSE sector and, in particular, on the quality of the employment they generated. In order to put the discussion presented in the following chapters into perspective, this section of the report analyses the main characteristics of the reforms implemented in the 1990s and briefly describes certain characteristic tendencies observed in the labour market.

1. Economic structure and performance

Before 1990, the Peruvian economic model was based on decisive government intervention in the economy, basically through the protection of the domestic market, price control, the extensive use of subsidies and tax exemptions, the provision of development loans and labour laws that protected a small number of formal workers (Villarán, 1994). Towards the end of the 1980s, it became obvious that this model had reached its limits: it had led Peru into one of the worst economic crises of its history. In 1989, production had fallen by almost 12 per cent and inflation had reached 2,775 per cent. In the first months of 1990, inflation was more than 100 per cent a month. Starting in August 1990, the newly elected Government, led by President Fujimori, implemented a rigorous stabilization programme together with structural reforms, in an attempt to drastically change the economic growth model. Many of these changes would mark the course of the economy in the following years and have an important effect on the labour market. This section describes these changes as well as the performance of the economy and the labour market in the 1990s.

1.1 Trends in production

In regard to the trends in production, the 1990s can be divided into three distinct periods, as Figure 1.1 shows. The first period, from 1990 to 1992, was characterized by the fact that the GNP was basically at a standstill and that the main economic reforms that would determine the course of the economy during the rest of the decade were made during this period.

Figure 1.1: Variation of GNP and employment, 1990-2000 (%)



Source: Author’s calculations, using data from the National Institute of Statistics and Data (INEI)

The second period, from 1993 to 1995, was characterized by impressive economic growth, due to the forceful promotion of private investment and public spending. However, this strategy could not be sustained. In 1996, a third period began, characterized by a series of economic fluctuations associated with foreign and domestic economic shocks. This led to a fairly severe recession from which the country has not yet recovered. A brief look at the principal characteristics of each one of these periods follows.

a. The reform period: 1990-1992

In this period, production was stationary because of the crisis in the late 1980s, as well as the application of economic stabilization measures and structural reforms. These reforms covered almost all areas:

Prices were unfrozen or freed and foreign trade was opened. All price controls and tariff protections were eliminated. The trade reform was rapid and meant the reduction of the effective protection rate to one-third of its pre-reform level in only one and a half years.⁸ On the other hand, subsidies for exports were eliminated and controls were taken off the exchange rates, permitting deposits and banking loans in foreign currency and the free movement of capital.

Labour Reform. The laws concerning dismissal were modified (job security was reduced) as well as those concerning hiring or contracting of personnel (new methods of

⁸ In August 1990, the maximum duty of 84 per cent was reduced to 50 per cent and the minimum duty of 15 per cent was reduced to 10 per cent. One month later, the number of duty rates was reduced to only three: 15, 25 and 50 per cent. In March 1991, free trade was intensified by reducing the number of duties to only two: 15 and 25 per cent, with average duty at 17 per cent.

hiring personnel were incorporated). At the same time, significant limitations were placed on the right to freedom of association and collective bargaining.

Tax System Reform. The general objective was to implement a system that was easy for tax-payers to comply with and easy for tax authorities to administer. At the same time, the aim was that the tax be neutral (with regards to its effects on economic decisions) and stable enough to create an attractive setting for investment.

Reform of the Government and public administration. In only a few years, the number of government employees dropped from 800,000 to a little more than 200,000. In addition, a significant privatization process was begun that included selling public enterprises and ceding numerous public assets.

Financial Reform. Interest rate controls were eliminated by the new Central Reserve Bank Constitutional Law. This established that the Bank's only functions were to regulate the money supply, administer international reserves, issue currency and report on national finances (Rojas, 1994). Likewise, the principal banking laws were modified and the existing government banking system (development bank) was privatized.

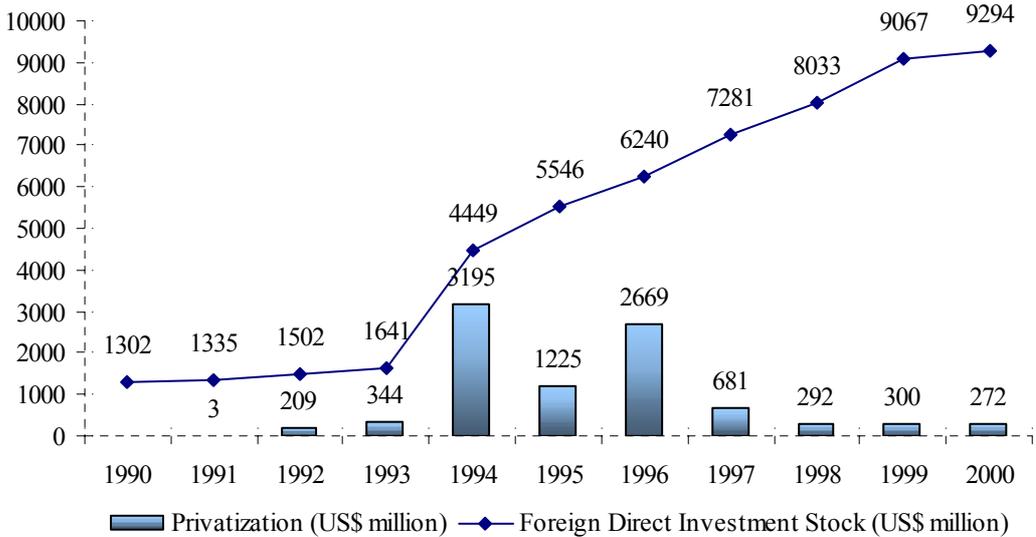
It should also be pointed out that some significant political events took place in 1992. For instance, there was the famous auto-coup d'état through which the Executive Branch took control of almost all governmental powers, which made it easier for it to carry out economic reforms.

b. Accelerated growth period: 1993-1995

This period was characterized by significant GNP growth. The opening of markets and success in the fight against terrorism attracted substantial investments to the country, particularly foreign investment. In fact, even though public investment decreased between 1993 and 1995, private investment more than compensated for the drop, since it grew significantly, as Figure 1.2 shows. One determining factor in this performance was the privatization process that sold public stock worth more than US\$ 3 billion in 1994, the highest figure reached so far. In general, investment through privatization between 1994 and 1996 represented 3 per cent of GNP.⁹

⁹ It should also be pointed out that Peru obtained a US\$ 1,896,000,000 reduction of its debt with the “*Club de Paris*” (Group of Peru's creditors in Paris).

Figure 1.2: Evolution of foreign investment and privatization, 1990-2000



Source: Daily Newspaper “*Gestión*”. Special Edition, September 2000.

Another factor was that presidential elections were held in 1995 and President Fujimori had declared his intention to run for re-election for the 1995-2000 term. The result was accelerated Government spending on public works, starting in 1994. This provoked an even larger increase in GNP growth, although clearly artificial. Thus, during the presidential campaign, average monthly growth rates of 17 per cent were reached, making Peru’s GNP the fastest growing in Latin America.

c. A period of political and economical turbulence: 1996-2001

The earlier growth rate could not be maintained and after Fujimori’s re-election, the Government put a fiscal and monetary adjustment into effect. In 1996, GNP growth rate was only 2.5 per cent. Specifically, tax and monetary policies were applied to attenuate domestic expansion and avoid potential unbalances in foreign accounts that could harm growth. Similarly, the privatization process was promoted again in 1996 and reached more than US\$ 2 billion. Due to these measures, the GNP grew 7.2 per cent in 1997.

Growth was virtually nil in 1998, when the GNP only grew 0.3 per cent due to two exogenous factors: the *Niño* phenomenon and the international crisis. First, the *Niño* cyclone damaged the economic infrastructure and substantially reduced fishing and agricultural exports. This led to a standstill in productive activity, the deterioration of the Government’s current account, and the temporary acceleration of inflation. Consumption and private investment decreased by 0.4 per cent and 2.3 per cent respectively. Secondly, the international crisis led to a fall in the terms of exchange of 13 per cent – the largest in 40 years – and a severe limitation of foreign resources, producing a significant reduction in available foreign credit and a considerable increase in interest rates.

The Government took various measures to balance the economy, by increasing public investment and by intervention in the foreign currency exchange market. The Central Reserve Bank (BCRP) began to give liquidity loans in foreign currency and reduced the average foreign currency reserve rate. These measures partially alleviated the credit restriction and reduced uncertainty in the economy. However, towards the end of 1998, problems could be

observed in the financial system: the *Banco Republica* (Republic Bank) was audited and the *Banco Latino* (Latin Bank) was placed under observance.

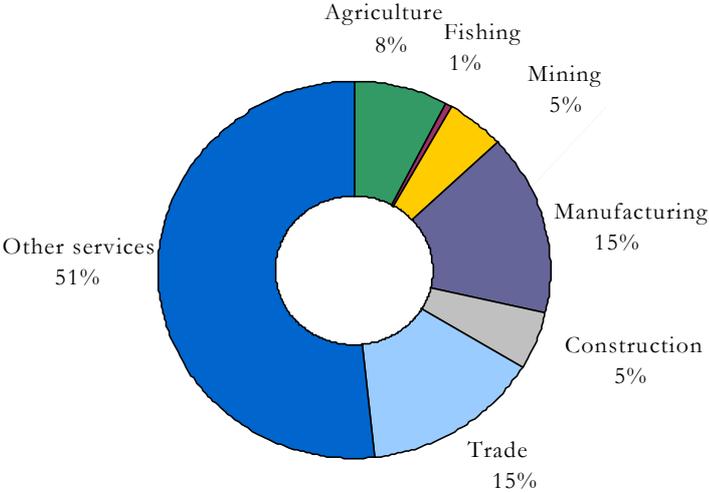
During 1999, the Peruvian economy began to show slight signs of improvement owing to the recovery of the sectors that were most affected by *Niño* in 1998 (fishing, the natural resource processing industry and agriculture) to which was added the expansion of mining production. In contrast, production in the non-primary productive sector dropped by 0.9 per cent. This was reflected in a reduction of domestic demand of 2.6 per cent. It became clear in this year that private investment had reacted less favourably than other national demand elements. During 1999, private investment dropped by 16.3 per cent. At the same time, many enterprises had problems meeting their financial obligations and thus increased the bad-debt portfolio of the banking system.

Some analysts have pointed out that in normal circumstances the country would have stabilized after these phenomena. However, towards the end of 1999, there were already signs of the impending political crisis, which escalated the following year. Presidential elections were held in 2000 in which President Fujimori ran for a third term of office. Without going into the legitimacy of this third campaign, the 2000 electoral process was plagued with irregularities that created an unstable climate for investment. Moreover, the election won by Fujimori was evaluated by the Organization of American States as being “neither fair nor free”. This led to further instability in the economic system, exacerbated by the discovery of corruption. As a result, Fujimori shortened his term from five years to one and called new elections for 2001. These political problems increased the effects of the recession that had already lasted over four years in Peru.

1.2 Composition of production

In the 1990s, as Figure 1.3a shows, the Peruvian economic structure was highly dependent on the service sector, representing 51 per cent of GNP. Ranking second in importance were the manufacturing and trade sectors, responsible for 15 per cent each of GNP. Third place was held by the primary sectors: mining, fishing, and agriculture. These were responsible for 14 per cent of GNP. Finally, there was the construction sector with 5 per cent of GNP.

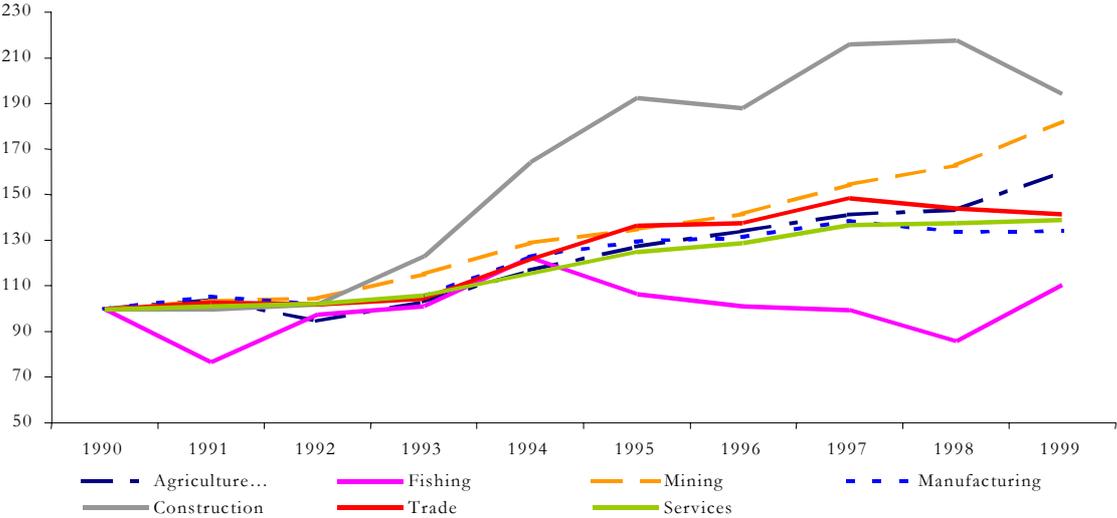
Figure 1.3a: Composition of GNP (percentage, average covering 1990 to 2000)



Source: Prepared by the author with data from the Central Reserve Bank of Peru (BCRP).

The reforms put into effect attempted to change this structure. Figure 1.3b shows this evolution. On opening the economy, normally protected sectors were exposed to international competition. At first, the sectors that grew most were those with the largest comparative advantages (fishing, mining and some agricultural sectors). Over time, other sectors adapted to the new market conditions. Among the sectors that grew most after 1993 were construction, finance, the paper, wood and furniture industries and lately the food industry.¹⁰

Figure 1.3b: Evolution of GNP by economic sector (1990–1999, 1990=100)



Source: Author’s calculations, using data from the 1999 Annual Report of the Central Reserve Bank of Peru (BCRP).

¹⁰ See Annex 2, Tables A1 and A2, which contain a brief description of the evolution of each of the sectors.

As for extracting activities, agriculture and fishing underwent significant variations during the decade because of weather conditions (*Niño*). Meanwhile, the mining and oil sectors developed because of economic reforms that managed to attract both foreign and national investors.

On the other hand, the manufacturing industry – protected in previous decades by policies aimed towards substituting imports – was suddenly exposed to international competition due to the rapid opening of the market. This initially implied a significant change in the composition of this sector. Although some sectors reacted and adapted quickly, the sector has been one of the most affected by the recent recession.

The service sector grew the most during this period. Its evolution was similar to that registered for the total GNP: a period of stagnation from 1989 to 1992, and later a growth rate of more than 9 per cent a year beginning in 1993. The growth of this sector was significantly contributed to by the evolution of the finance and trade sectors.

2. The labour market

The current situation of the Peruvian labour market is the result of several long- and short-term factors – both have combined to shape the real possibilities that the Peruvian labour market will have in the coming years, especially in terms of creation of quality employment.

2.1 Some long-term factors

Several studies point out three factors that affect labour markets in the long-term: the behaviour of the population, participation rate, and the demand for labour derived from production.¹¹

Demographic growth. Peru's population more than quadrupled during the second half of the 20th century due to an increase in population growth rates (MTPS, 1998a): from around 1.6 per cent annually in past decades to 2.8 per cent in 1972 and 2.6 per cent in 1981.¹² The population growth rate is not expected to fall back to 1.5 per cent a year until the second decade of the 21st century. This demographic growth led to the appearance of a large age-cohort that is currently between 18 and 30 years of age. This generation, entering the labour market in the late 1980s and especially the 1990s, increased the number of new workers – basically young people – and thus increased competition for jobs and the resulting difficulty in finding employment.

Participation rate. Several studies have shown that the participation rate (proportion of people working or looking for work) increased significantly in the past two decades. In 1970, the participation rate was 55 per cent of the population. In 1998, it increased to 64 per cent, largely explained by the massive flow of women into the labour market. In 1970, the participation rate for women was 38 per cent and 58 per cent in 1998 – the proportion of

¹¹ For a detailed discussion see Chacaltana (2000).

¹² This phenomenon has been demonstrated by the Ministry of Labour (MTPS, 1998a). Demographic growth was caused by a rapid reduction in the infant mortality rate resulting from the expansion of public health services. The birth rate also decreased, albeit more slowly.

women in the labour market is currently much larger than it was three decades ago,¹³ and has significantly contributed to the growth of labour supply.

This increase in labour supply would not have caused any major problems if the demand for labour had increased at the same rate. However, the per capita gross national product has tended to fall since the mid-1970s with some brief growth periods up to the beginning of the 1990s.¹⁴ Thus, with the fall of aggregate production in respect to population (for any positive employment elasticity to output), the demand for labour fell proportionately.

The excess labour supply that resulted could not be absorbed in the short term¹⁵ because of the accumulation of several years of excess supply. Curiously, the existence of this excess labour supply did not give rise to a significant unemployment level in the country. Labour market adjustment did not take place through numbers (more unemployment) but rather through prices which implies that the excess labour supply led to lower real incomes and poorer job quality.

2.2 Recent developments: The labour market in the 1990s

This section deals with the institutional changes introduced and on the evolution of employment.

Institutional changes

The labour reform policy put into effect in the first half of the 1990s affected both the individual and collective rights of workers and was applied progressively from 1991 to 1995.

Changes in individual labour rights

Concerning individual labour rights, regulations concerning hiring and dismissal were made more flexible, as Table 1.1 shows.

¹³ Several factors explain this behaviour. Among them, the higher educational level of women is one of the most important. The generation born in the 1940s had 3.5 years less education than those born in the 1970s. Moreover, the gap between men and women in terms of education was reduced tremendously during the last 50 years. The reduction in the birthrate also played an important role since women are less occupied with childcare and have more time available to participate in the labour market.

¹⁴ This has been analyzed in several studies, which have connected it with artificially expansive economic policies that, finally, caused deteriorating national production.

¹⁵ Excess labour was the origin of other phenomena such as the informal or unstructured sector, under-employment, etc. For more information in this respect, see Carbonetto and others (1988).

Table 1.1: Synthesis of labour reform - Individual rights of workers

| | 1990 | 1999 |
|---------------------------------------|--------------------------------|---|
| I. Dismissal of personnel | | |
| 1.1 Arbitrary dismissal | Absolute job stability existed | Possible if compensation is given |
| 1.2 Justifiable dismissal | Serious faults | Worker's behaviour Worker's ability Economic reasons for collective dismissals (10 per cent of workers) |
| | Judicially demonstrable | Certified notification |
| 1.3 Trial period | 3 months for everyone | 3 months in general 6 months for qualified workers 1 year for confidential positions |
| II. Incorporation of personnel | | |
| 2.1 Short-term contracts | Temporary or seasonal services | Of a temporary or seasonal nature By job or service (specific, intermittent or seasonal) |
| 2.2 Job training | | |
| - Student training | Students | Students and graduates |
| - Youth Job-training Agreements (FLJ) | Then nonexistent | Young people with tertiary education |
| - Learning contracts | Then nonexistent | Young people with a technical education |
| 2.3 Sub-contracting services | | |
| - Direct | Commission, piecework | Commission, piecework Professional fees |
| - Intermediaries | Complementary services | Complementary services Seasonal services |

Source: Chacaltana, 2000.

With regard to dismissal, the absolute job stability that had existed in Peru from 1970 to 1990 was eliminated. It was replaced by “relative job stability” defined as protection against arbitrary dismissal. This implied giving the worker an additional month and a half salary for each year worked. Simultaneously, the causes for arbitrary dismissal were broadened, that is, the situations in which such protection was not applicable were increased. There are currently numerous ways of “fairly” dismissing workers. Before the reform, a worker could only be arbitrarily dismissed for serious faults committed against the employer. Now, a worker can be dismissed not only for misconduct but also for labour skills and economic reasons. What is more, 10 per cent of the workers in an enterprise can be collectively dismissed for economic reasons.¹⁶

Regarding reforms concerning the hiring of personnel, the changes took place basically on three levels:¹⁷

¹⁶ Considering that, in practice, the majority of enterprises in Peru have less than 50 workers, one would only have to dismiss 5 workers to provide this as the reason. Thus, this seems one of the easiest ways to dismiss personnel.

¹⁷ A more detailed description can be found in Chacaltana, 1999.

The extension of temporary contract modalities. Before the reform, temporary contracts were very limited: they could only be made if the temporary or seasonal nature of the service or job called for this type of contract. In addition, each one of these contracts had to be approved by the labour administration authority and they could not be for more than one year. The labour reform increased the types of fixed-term contracts: to the already existing temporary or seasonal contracts were added job or service contracts (specific, intermittent, or temporary). In addition, the duration of temporary contracts which could be successively renewed was increased to a maximum of five years – although there is no limit for contracts involving specific activities (tasks or services). Lastly, the administrative authority’s approval is not necessary but it must be notified.

The extension of job training modalities. Before the reform, on-the-job training contracts only existed as **pre-professional practice (PPP)**, a practice which was only applicable to students studying at tertiary level (usually university). The reform established that PPP was not only applicable to students but also to graduates. At the same time, **youth labour training conventions (FLJ)** were created for young people between 16 and 25 years of age. At the same time, **learning contracts (CA)**, were created for young people with technical training. One important characteristic of these agreements is that they are not labour contracts. The employer is not obliged to pay social benefits, although he or she is obliged to provide medical protection for participating youth.¹⁸

The extension of types of sub-contract. Before the reform, sub-contracting was only through intermediaries; its use was very limited since only activities such as maintenance, cleaning, guarding (watchmen), security, seasonal events and other similar activities could be sub-contracted. The labour reform established two methods of sub-contracting workers. The first is done indirectly, through intermediation, and can be carried out by **Work and employment promotion cooperatives** and **Special services enterprises (“Services”)**. The innovation is that the workers provided by these Services or cooperatives can offer not only **complementary** services but also **temporary** services.¹⁹ The second type of sub-contracting is done directly through a Civil Contract for Professional Services. Although this is not exactly a work contract (but rather a civil contract), in practice, it has become quite popular. In the past few years, this type of contract has grown the most in terms of employment.

Changes in collective rights

With regard to collective rights, the changes that occurred significantly reduced workers’ possibilities to organize and collectively negotiate their salaries and working conditions. For example, a minimum number of workers was introduced to form a union: 20 workers for an enterprise union and half the workers in a given sector for a branch union. In addition, protection against dismissal of union leaders was eliminated. Finally, the possibility of negotiating collective benefits for workers at the branch level was annulled. Negotiation was only permitted at the enterprise level. The most significant example is that of civil construction workers. Since their jobs do not last generally more than six months, their possibilities of organizing and bargaining decreased considerably.

¹⁸ It should also be pointed out that simultaneously with the creation of these mechanisms, the limitations for their use were also established. The maximum duration of the FLJs and the CAs is 36 months. The FLJs and the CAs must be recorded in a special registry in the Ministry of Labour after the payment of a small fee.

¹⁹ There are currently four possible types of intermediation: complementary service enterprises, temporary service enterprises, work and employment promotion cooperatives, and temporal work cooperatives.

All these changes provoked a drastic fall in the bargaining power of workers. Moreover, they took place in a context in which the labour administration authority had been weakened. In 1990, the Ministry of Labour had more than 1,000 employees. As a result of the government reform initiated at the beginning of the decade, this number was reduced to 400. Currently, the Ministry has about 200 employees. In other words, the labour market institutions have been systematically weakened. As the report will show later, this has had a dramatic effect on the quality of employment in Peru.

Changes in social security benefits

The changes that occurred in the workers' social security benefits should also be highlighted here. Social security benefits for workers in Peru have usually included two areas: health care and pensions.

Health care. There is a double system: health risk coverage through health insurance and on-the-job accident insurance. The worker's right to health insurance has existed in Peruvian legislation since the beginning of the 20th century. Its financing has always been a matter of debate, although the cost (equivalent to 9 per cent of the worker's salary), has been completely paid by the employers since July 1994. Law 26790 was passed in May 1997, to create the Health Service Entities (EPS), a private health care service. This new system did not involve any change at all in the costs to the employer.²⁰

Occupational Accident Insurance (SAT) is one of the oldest benefits found in Peruvian labour law. Its purpose is to establish the responsibility of the employer for accidents resulting from work activities. Since 1971,²¹ on-the-job accident coverage is obligatory and has become part of the social security system. A qualitative change occurred in May 1997, when the Social Security Health Care Modernization Law (*Ley de Modernización de la Salud en la Seguridad Social*) made the Occupational Accident Insurance (SAT) a Complementary Occupation Risk Insurance.²² In simple terms this meant that the insurance could be provided not only by the Social Security Health Care Service but also by private agents.²³

Pensions. The pension system, as well as the amount of the contributions, changed substantially as a result of the labour reform in the 1990s. In 1992, the Private Pension System (SPP) was created. Its basic characteristic is that the workers contribute to an individual capitalization fund and not to a common fund as in the public system. In the private pension system, the initial rates varied from 12 to 14 per cent of the salary, whereas the percentage in the public system was 9 per cent.

The most important change occurred in August 1994, when it was decided that the entire contribution would be paid by the worker (in the public as well as the private pension system). To do this, the workers' nominal wages were increased to compensate the larger amount contributed to the public system. Since this date, pensions are no longer an expense for employers: contributions are assumed entirely by workers.

²⁰ The fact that the worker joins a Health Service Entity (EPS) does not imply a larger or smaller contribution since the health service payment continues to be 9 per cent, an amount which must be paid entirely by the employer. What varies is the distribution of this amount: 6.75 per cent is still paid to the Peruvian Social Security Institute (IPSS) and 2.25 per cent is paid to the EPS.

²¹ Law No. 18846.

²² Law 26790 y D.S. No. 009-97-SA (Supreme Decree).

²³ Acuerdo No. 54-11-IPSS-98 (Agreement).

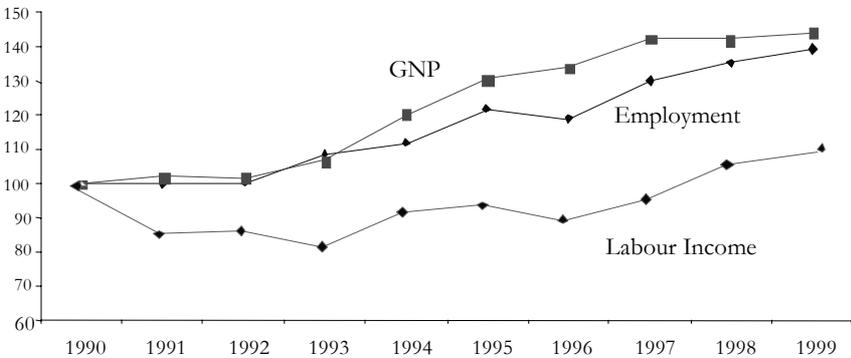
Some stylized facts observed in the 1990s

In this context, and probably not independently from the institutional changes, the labour market began to change rapidly. Some stylized facts make it possible to put into perspective the changes produced.

Increase in employment but not in income

The employment volume has developed in direct relationship to the level of production, as Figure 1.4 shows.²⁴ This increase in employment has not been accompanied by an increase in workers’ wages. On the contrary, employment income, which had decreased until 1993, has recovered very slowly in proportion to GNP and to employment.

Figure 1.4: Evolution of GNP, employment and labour income: 1990-1999 (1990 = 100)



| Indicators % | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|
| Participation rate | 59.6 | 55.9 | 57.1 | 60.1 | 59.7 | 62.4 | 59.7 | 64.5 | 64.6 | 65.7 |
| Unemployment rate | 8.3 | 5.9 | 9.4 | 9.9 | 8.8 | 7.1 | 7.2 | 9.0 | 7.3 | 9.4 |
| Underemployment rate | 55.3 | 52.6 | 46.5 | 48.8 | 62.0 | 44.9 | 41.7 | 38.7 | 38.8 | 37.4 |
| Employment/population ratio | 53.5 | 51.4 | 50.6 | 53.1 | 53.4 | 56.9 | 54.4 | 57.7 | 56.9 | 59.6 |

Note: Employment and labour income data are for Metropolitan Lima.
 Source: Author’s calculations, using data from the National Institute of Statistics and Data (INEI) and the National Household Survey (ENAHO), 1990-1999.

The growth of employment in services and small enterprise

On average, employment grew 3.9 per cent yearly during the 90s. Where was this growth? Figure 1.5 shows that the economic sectors in which employment grew, until the middle of the decade, were construction and services (personal and non-personal) whereas employment dropped throughout the decade in the manufacturing industry. Even more interesting is the analysis made in relation to the size of enterprise. As can be observed, in Metropolitan Lima practically all of the jobs were created in enterprises with up to 5 workers. Large enterprises have only begun to create jobs in the last few years whereas medium and small enterprises have maintained their level of employment.

²⁴ As in the case of GNP, one can observe three distinct periods: 1990-1992 in which employment remained almost stationary due to economic difficulties; 1993-1995 with a large growth in employment; and from 1996 onwards, when employment began to fluctuate in a manner similar to that observed for GNP.

Figure 1.5a: Metropolitan Lima - Employment growth by economic activity, 1990-1998

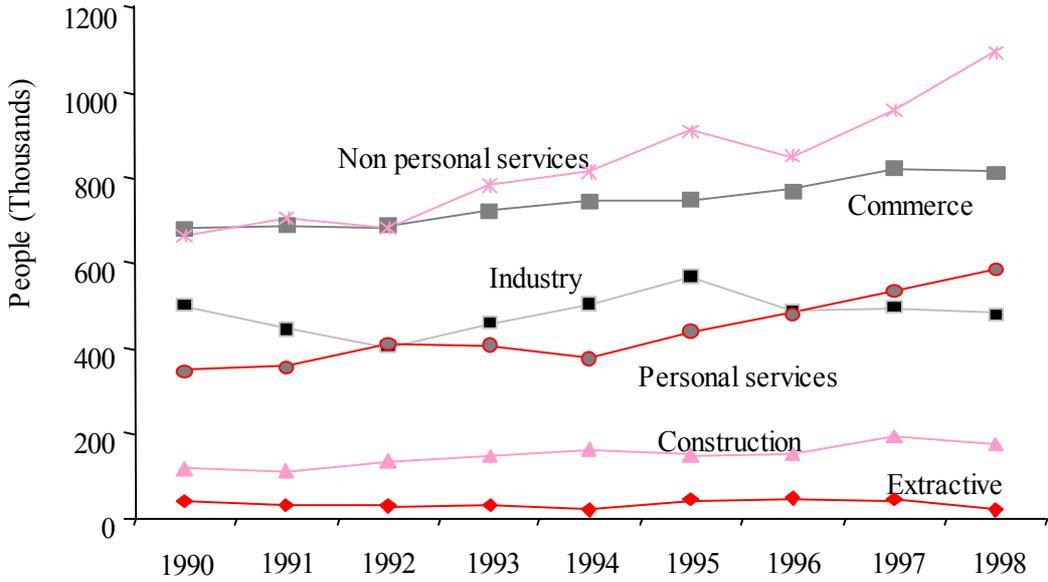
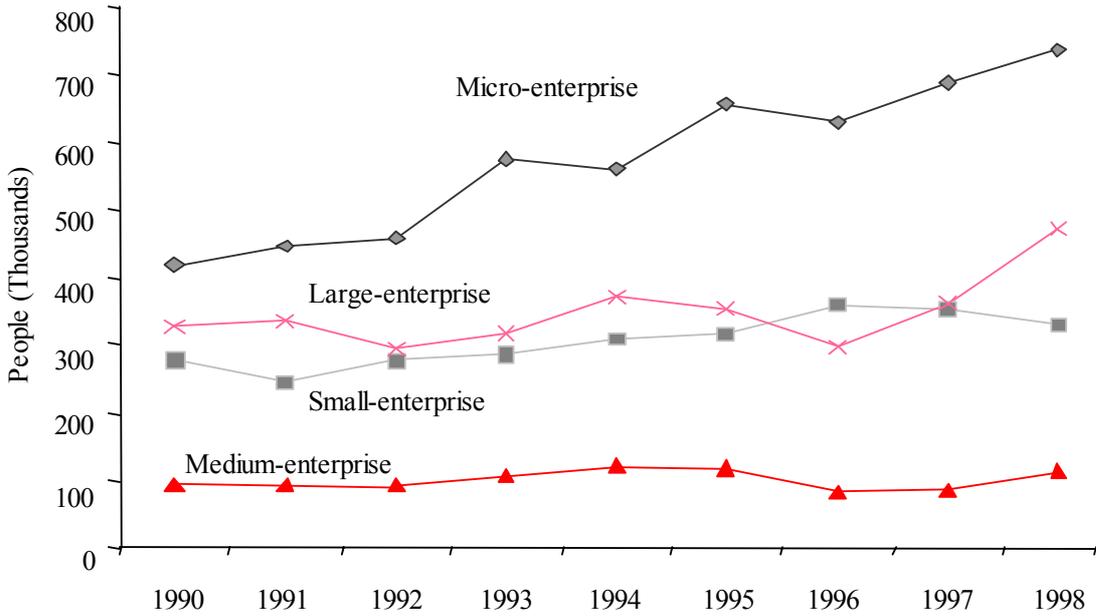


Figure 1.5b: Metropolitan Lima - Employment growth by enterprise size, 1990-1998



Source: Author’s calculations, using data from the National Household Survey (ENAHO), 1990-1998.

Increase in labour turnover

Some studies have found that job tenure has dropped and that labour turnover has increased. Table 1.2 shows the magnitude of the labour turnover using data from panel surveys made in 1996. It was found that 41.3 per cent of people of working age change their employment situation within a year while only 39.7 per cent had a job all year. Considering the fact that only 80 per cent of the working-age population was working at least once during the year, it can be concluded that only half of the workers had a job for 12 consecutive months, due to the high labour turnover.

Table 1.2: Urban Peru – Quarterly working-age population movement (%), 1996

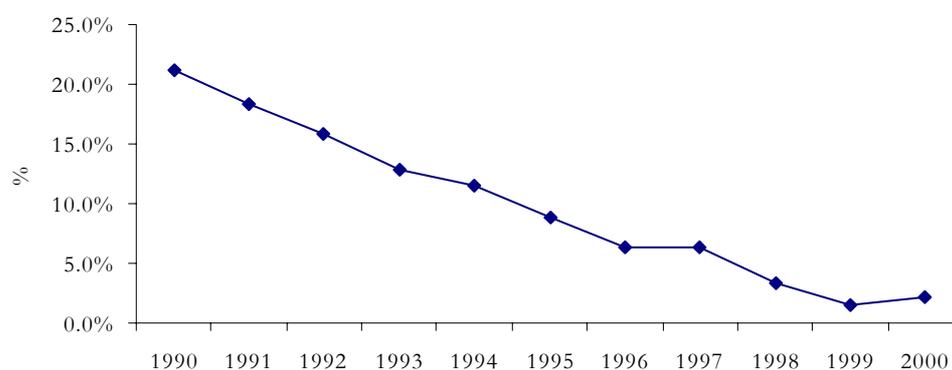
| | |
|------------------------|--------------|
| Does not change | 58.8 |
| Always employed | 39.7 |
| Always unemployed | 0.1 |
| Always inactive | 19.0 |
| Changes | 41.3 |
| Employed – unemployed | 3.8 |
| Employed – inactive | 29.5 |
| Unemployed – inactive | 3.8 |
| Rest | 4.2 |
| Total | 100.0 |

Source: Chacaltana, 2000.

A dramatic fall in union affiliation

In regard to private paid workers²⁵ (workers in private paid employment), the proportion belonging to a union decreased from almost 25 per cent in 1990 to less than 5 per cent at the end of the decade (Figure 1.6). This may have been decisively influenced by the changes made in labour laws concerning collective rights. Nevertheless, an additional factor is that the unions themselves had lost prestige over the years.

Figure 1.6: Metropolitan Lima - Union affiliation of private paid workers, 1990-2000



Note: 1. The percentage represents the proportion of private paid workers belonging to a union. 2. The calculation is based on the number of private paid workers that could belong to a union (in enterprises with more than 20 workers).

Source: Author's calculations, using data from the National Household Survey 1990-2000.

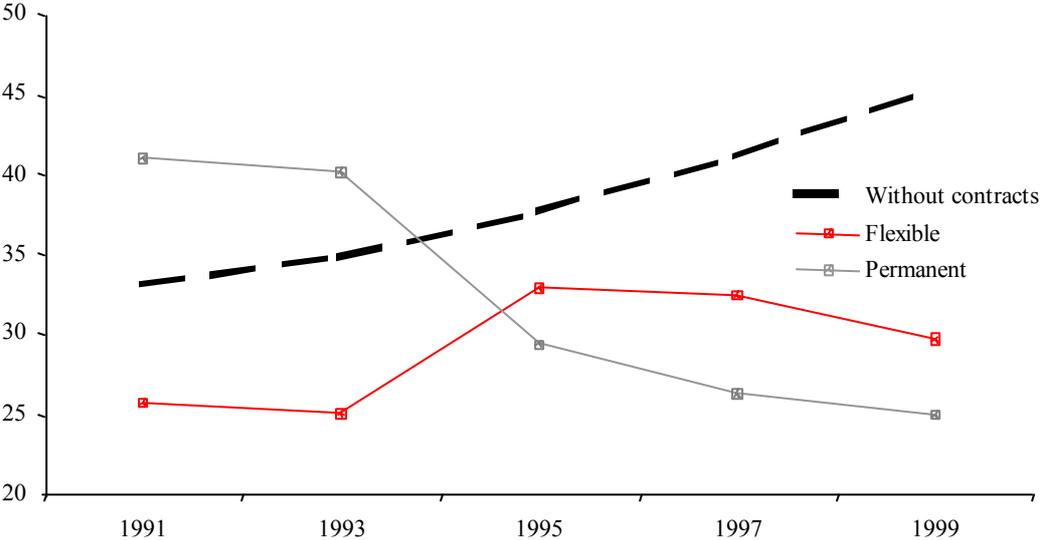
Reduction of permanent employment and the increase of employment without a written contract

Probably the biggest change in private paid employment was the result of changes that took place in labour regulations. As is known, the labour reform implied, among other things, the reduction of employment security and the promotion of temporary hiring (flexibility) of labour. This resulted in the proportion of permanent private paid workers decreasing from 40.4 per cent in 1989 to 26.3 per cent in 1997. The number of temporary workers increased

²⁵ Private paid workers include salary and wage earners, as well as those employees paid by commission from sales, by piece-rates, bonuses or in-kind payments such as food, housing or training. This definition is used throughout the text, tables and figures of this report.

from 9.3 per cent to 16 per cent in the same period, and the share of workers without written contracts increased from 34.4 per cent to 41.2 per cent. One interesting point is that neither sub-contracting by Services or cooperatives, nor job training agreements have been significantly used by the enterprises. Meanwhile, direct sub-contracting, chiefly in the form of leasing services or professional fees, has accelerated considerably.

Figure 1.7: Metropolitan Lima – Type of contract, percentage structure, 1991–1999



Note: “Flexible” includes: workers on commission, piece workers, workers for professional fees, workers from services and cooperatives, student workers, contracts for job training and occasional workers; “Permanent” includes indefinite contracts and trial contracts. The calculations concern workers in the private sector in Metropolitan Lima.

Source: Author’s calculations, using data from the National Household Surveys, 1991-1999.

As shown above, the labour market changed drastically and quickly in the 1990s. All of these changes had considerable effects on employers and workers in the MSE sector and job quality in micro and small enterprises. These aspects are examined in Chapter III.

Chapter II now assesses the existing legal and institutional framework in Peru, in order to establish some potential relationships between their regulatory characteristics and job quality in MSEs.

II. INSTITUTIONAL AND LEGAL FRAMEWORK

Similar to many other countries, the legal and institutional system supporting MSEs in Peru is complex. Not only are different institutions involved in specific programmes or activities targeting the MSE sector, but different authorities are in charge of applying the general or specific legislation concerning this sector. As a result, the legal and institutional system is considerably diverse, confusing, not very enterprise-friendly and, at times, hostile to MSEs.²⁶ In addition, two inherent characteristics of the Peruvian institutional and legal framework are its low level of stability over time and the incapacity of the Government to enforce its regulations.

1. Institutional framework

The institutional framework for supporting and regulating the MSE sector comprises public and private institutions of diverse nature, as shown in Table 2.1. On the public side, there is a diverse range of institutions or programmes – 22, according to Villarán (1994), of which the majority have national coverage. On the private side, the figures are not known, although it is known that the majority of the entities are non-profit civil organizations.

Various studies have emphasized that the principal characteristics of this institutional framework are: a wide dispersion of efforts, geographic concentration (many entities in a few zones) and low coverage especially of support programmes. Among MSE organisations, there is little coordination and at times competition in regard to representation of the sector.

Table 2.1: Institutional support framework for MSEs

| | Government/Semi Gvt. | Private/NGO |
|-------------------------------|---|--|
| Policies/Laws | MITINCI COFOPRI PROMPYME MTPS Congress SUNAT Municipalities | |
| Advocacy/Representation | PROMPYME MSE Coordination Board PPME – MITINCI | COPEME (NGOs) Business organizations |
| Business development services | PROPOME PRODAME BONOPYME PROMPEX PROFECE | Prog. MSP ADEX-AID Other projects financed by International Technical Cooperation COPEME (NGOs) COPEI – SIN Academic institutions and consultants |
| Finance | COFIDE FOGAPI FONREPE CMACs | Commercial Banks MIBANCO EDPYMES. CRACs |
| Infrastructure | MITINCI FONCODES PROG. Caminos Rurales | |

Note: Please refer to the text below and to the List of Abbreviations.

Source: Prepared by the author.

²⁶ Contrary to European countries, policies in Peru are not usually expressed in specific documents. Government policy intentions are directly expressed through laws. Each law contains the motives, which in a summarized way, would constitute what in other countries would be called policies.

The main institutions are described below.

MSE Coordination Board: This is an inter-institutional coordination organism promoted by the Government. Diverse public, private and technical cooperation entities involved in the development of the MSE sector participate in this board, created in 1996. These include major international cooperation programmes, representative organizations, and different public entities and organizations from the private sector that promote MSEs. It is presided over by the Vice-minister of Industry and the Secretary is the Ministry of Industry, Tourism, Integration and International Trade Negotiations' (MITINCI) International Technical Cooperation Office. There are regional Coordination Boards in Huancayo and Puno.

Ministry of Industry, Tourism, Integration and International Trade Negotiations (MITINCI): This entity regulates manufacturing, commercial and tourism activities. According to the Small and Micro-enterprise Law, it has many attributions concerning the promotion of MSEs. MITINCI carries out diverse support programmes and activities for the MSE sector. One of the most important is the Support Programme for Small Enterprises (PPME) created in 1994 with the objective of creating a favourable environment for MSE by eliminating obstacles to business development. Another of its objectives was to forge coordination between the private and public sector, to more efficiently use the resources designated for MSEs.²⁷ Another interesting programme is BONOPYME, which gives small enterprises vouchers (subsidies) so that they can acquire business development services. The total amount of the subsidy is US\$ 200 and never exceeds 70 per cent of the cost of the services. In other words, the service required is co-financed.

Ministry of Labour and Social Development (MTPS): Along with the Congress, this entity is responsible for the national labour laws. The labour administration authority is in charge of enforcing labour legislation in accordance with current standards. To do this, labour inspectors periodically visit a representative business sample in order to check the fulfilment of labour standards. Because of budget restrictions, the number of inspectors is quite small and they must concentrate their efforts on larger enterprises. The Ministry of Labour has a Self-employment and Micro-enterprise Programme (PRODAME) created in 1990 with its own resources. This programme is aimed towards facilitating the establishment and formalization of MSEs in order to generate better jobs nationwide. Its specific objectives are: a) to foster job opportunities through the creation of MSEs, b) to formalize and legalize MSEs already in operation so that they may have access to the economic and financial resources of the formal system, c) to reduce the time and cost required to legally set up an enterprise through simplifying administrative procedures and signing inter-institutional cooperation agreements and d) to provide training on the creation and formalization of businesses.²⁸ This programme helped constitute approximately 1,900 enterprises in 1995 and more than 4,000 in

²⁷ It also means to promote the development of the service market for the sector by encouraging its extension, specialization, quality and sustainability as well as promoting MSE competitiveness.

²⁸ Within the Ministry of Labour, PRODAME is a sub-department within the Employment and Professional Training Department (*Empleo y Formación Profesional*) that depends on the Vice-Ministry of Social Development (*Vice Ministerio de Promoción Social*). Its target group includes all those over 18 years of age who wish to create and formalize an MSE but with the restrictions that their capital stock be between 1000 and 14,400 *nuevos soles* (between \$US 280 and \$US 4,100). It makes no distinctions based on region, gender or economic sector.

2000.²⁹ Another important characteristic is that its coverage does not seem to be concentrated in urban Lima.

Small and Micro-Enterprise Development Commission (PROMPYME): This commission was created in 1997. Its purpose was to reinforce government development activities through a business development programme contributing to the broadening and activation of MSE markets.³⁰ PROMPYME is involved in promotion, coordination and dialogue. Its mission is to make it easier for MSEs to offer their goods and services wherever there is a demand. In other words, it seeks to bring supply and demand together. Its functions are: to disseminate sub-sector information systems, to foster the formation of MSE consortiums, to propose mechanisms to facilitate MSE access to purchasers from the public and private sector, and to promote fairs, exhibitions and other activities to improve market access.

Commission for the Promotion of Exports (PROMPEX) was created in 1996 to promote Peruvian exports.³¹ Its objectives expressly mention support to small and medium enterprise and an MSE representative is on its Board of Directors. Its specific purpose is to promote the development of small and medium enterprise export capacity through: a) assessment, technical assistance and training for small and medium enterprises that export products; b) promote mechanisms that facilitate access to financing by these enterprises; and c) promote the mobilisation of credit by small and medium enterprises to progressively meet their financial needs pre-investment, investment, working capital.

Development Finance Corporation (COFIDE): This is a financial public company created in 1971 under the Ministry of Economy and Finance (MEF). Its purpose is to contribute to the development of investment and national production through the uptake of financial resources. Its purpose is to mobilise resources from the national financial system and its own resources to promote and finance investment projects, develop new enterprises and support existing ones. With regard to MSEs, COFIDE has several support programmes that benefit from collaboration with international financial sources.³² It should be mentioned that COFIDE defines a micro-enterprise as one with less than 10 workers, less than US\$20,000 in fixed assets and less than US\$40,000 worth of annual sales. Small enterprises are defined as those with less than US\$30,000 in fixed assets and less than US\$750,000 in annual sales. One fact that shows how little impact COFIDE has had on MSEs is that until 1998, only 10 per cent of its yearly operations – US\$160 million out of US\$1,542 million – benefited MSEs (COFIDE, 1998).

Commission for the Formalization of Informal Ownership (COFOPRI): This institution is involved with property titles and the promotion of access to property registration for urban homesteader settlements and other informal settlements. It specifically concentrates on titles for informal housing with the idea that these titles can later be used as collateral for credit applications in the formal financial system. Recently, it was empowered to give titles to

²⁹ In 1999, the number of users was around 28,000 and the number of participants was approximately 31,000 while the capital raised amounted to 38 million soles (more than US\$10,000,000).

³⁰ Supreme Decree (Decreto Supremo) No. 059-97-PCM dated 24 November 1997. PROMPYME operates through an Executive Department (Dirección Ejecutiva) subject to a Directive Council comprised of representatives from the government (5 delegates) and two delegates from the business associations (one from existing MSE organizations and one from CONFIEP).

³¹ Legislative Decree (Decreto Legislativo) 805, 29 March 1996.

³² Among the most important of these programmes are: FOGAPI, a warranty fund for small industrial enterprises, PROMICRO, PROPEM, etc.

property in the business zones of populous areas so that the small enterprises would have more access to formal ownership.

Municipal Savings and Loans Associations (CMAC): These institutions are a novelty in Peru since they not only offer credit services but have also become entities in which the general public can deposit money. They have become an alternative place for saving accounts. Observations indicate that these municipal agencies have the lowest delinquency rates in the market. According to their promoters, this is due to the type of finance technology used. They do not ask for collateral and their strategy is based on knowing their clients, the MSEs, and having faith in them. One fact that shows their growth is that, between 1996 and 1999, the CMACs almost doubled their current loan settlements, from US\$66 million to US\$121 million.³³

Rural Savings and Loans Associations (CRAC): A system similar to the municipal associations was attempted in the rural areas, to finance farming and animal husbandry activities. Its management was basically private although government assistance was proposed initially. Over the years, many of these rural associations have ceased to function, others have been restructured. In general, they are being redefined.

Consortium of Small and Micro-Enterprise Support Organizations (COPEME) is the organization which brings together the largest number of non-governmental organizations (NGOs) dedicated to supporting the MSE sector.

MSE Associations: Initiatives to form associations of small entrepreneurs in Peru began in 1974 with the creation of the Peruvian Association of Small and Medium-sized Businesses (APEMIPE). It attracted the attention of numerous small entrepreneurs to such a degree that 10 years later the National Federation of Small Industries (FENAPI) was formed. In 1994, the Small and Micro-enterprise Committee was established within the National Confederation of Private Enterprise Institutions (CONFIEP). The latter brings together all the Peruvian employers' associations. The growing importance of the sector and the interest of diverse entities in collaborating on its development led to the formation of numerous associations of various types. For example, sector associations have been created for mining, garment manufacture, the pharmacy industry, etc. Some are national (CONAMYPE) and others are local (for example, Automobile Repairs in Juliaca). Thus, the claim to represent MSEs is being constantly competed for by the various existing organizations.

Micro-enterprise Bank (MIBANCO): MIBANCO is a government initiative that was later transferred to the private sector. Its main activity is financing of enterprises with less than 10 workers through the use of a local NGO (Community Action) infrastructure. It provides loans, savings, current accounts, guarantees, bonds and other banking services. One figure that indicates the size of this bank is that in July 2001, the loans given by the Micro-enterprise Bank (MIBANCO) only represented 1.4 per cent of the total loans given to the private sector by the banking system in national currency and almost 0 per cent of those given in foreign currency.³⁴

³³ Source: CMAC Federation.

³⁴ Source: Central Reserve Bank of Peru (BCRP).

2. Overview of legislation and policies³⁵

The policy and legal framework applicable to the small and micro-enterprise sector is complex and diverse because the laws that affect this sector derive from different government institutional remits. A detailed description of these laws in the seven areas this report covers is given below.

2.1 *Specific laws for MSEs*

In regard to the need for establishing specific regulations for the MSE sector, there are two lines of thought in Peru. One supports the idea that it is necessary to create a specific small and micro-enterprise law to cover all actions that the Government carries out in relation to this sector. The other view is that since the MSE sector is cutting across all sectors of the economy, any MSE law would be so general that it would be very difficult to enforce it. In this sense, the ideal would be to find those elements in each sector of the economy that are applicable to MSEs and then analyse their specifics and probable effects.

It was probably due to this difference in perspective (perennial in the political and academic arenas) that the first Small Enterprise Law (*Ley de Pequeñas Empresas*) was only created in 1991 through Legislative Decree 705.³⁶ Chávez and Chacaltana (1992) have argued that the economic context in which this law was created was not very favourable and that its conception was basically normative, because it dealt more with the simplification of the formalization process than it did with other more important developmental aspects. The most important innovations of the Law were the following:

- *Definition of MSE.* A micro-enterprise was defined as one with 10 workers or less (not counting the owner), with yearly sales not exceeding 12 UIT.³⁷ A small enterprise was defined as one with 20 workers or less, with yearly sales not exceeding 25 UIT.
- *Administrative simplification.* The decree simplified access to legal formality through a Unified Registration System. The idea was to make it possible to start up a business on the one-stop-shop principle of making one payment and one application.³⁸ The process for obtaining a Municipal License was also simplified so that the only requirement was the registration of the enterprise in the Unified Registry. It was established that the process for obtaining a license was free and that MSEs must keep two basic accounting books: a) a record of income and expenses, and b) a payroll record.
- *MSE promotion.* Promotion was very limited because the idea was that access to formality would make it possible for the sector to develop. For this reason, the MITINCI and the MTPS were assigned the task of giving legal and business advice to the sector.

³⁵ This section was elaborated based on relevant legislation and previous studies of the legal framework for MSEs, such as CINCEYT (1998).

³⁶ The circumstances in 1991 were quite special. The president of the Congress, Máximo San Román, was also the Vice-President of Peru and at the same time a prosperous small entrepreneur in the bakery sector.

³⁷ In early 2002, the value of one UIT was PEN 3,100 (Peruvian *nuevo sole*) or approximately US\$ 886. UIT is an inflation-adapted measurement unit, used for tax purposes for micro-enterprises.

³⁸ The antecedent was *Decreto Supremo* No. 118-90-PCM dated 14 September 1990, “Regulations for the Unification and Simplification of Registration for access to formal business” (“Reglamento sobre Unificación y Simplificación de Registros para acceder a la empresa formal”). Similarly, mention should be made here of the National Programme against Bureaucracy (*Programa Nacional de Desburocratización*) Supreme Decree No. 100-85-PCM of 1985 and the Administration Simplification Law (*Ley de Simplificación Administrativa*) Supreme Decree No. 070-89-PCM of June 1989.

- *Tax regime.* A Simplified Unified Tax (IUS) was created, in which a minimum percentage of the sales made was paid, replacing all other tax obligations or contributions.

Many of these innovations had almost completely disappeared by the end of the 1990s. The first to go was the Simplified Unified Tax (IUS) which lasted for less than a year. During these same years, an important tax reform was gestating in the country. This reform promoted standard laws for tax-payers and a system like the IUS clearly created a fairly large exemption. The Unified Registry lasted a little longer but it soon became apparent that it duplicated another mechanism created by the tax reform: The Tax-Payers' Registry (RUC) which, due to its coverage and universality, was clearly better than the Unified Registry.³⁹ In practice, over the years, the Unified Registry became only one more piece of paperwork to hinder the formalization of small enterprises because they had to get both a RUC number and register their enterprise at the Unified Registry before they could obtain other necessary documents such as a Municipal License. Thus, the Unified Registry was eliminated in 1999 and the RUC registration and the Municipal License became the only procedures necessary to start up a business. The only thing that has survived of the first Small and Micro-Enterprise Law is the free Municipal License, although practice has resulted in changes in this system. Due to the high failure rate of the new enterprises created, municipalities established preliminary procedures for obtaining a license such as the Certificate of Compatibility of Use or zoning permit.

The new General Small and Micro-Enterprise Law (Law 26935) of 2000 came into being in this context. It should be pointed out that since this law was initiated by the Congress, only its regulations (rather than the law itself) could be amply discussed with the government institutions or organs that are usually dedicated to promoting this sector.⁴⁰ The main contributions of this Law were:

- **Definition of the subsidiary role of the Government in MSE development.** The law declares that the role of the Government is subsidiary to private initiative. In operative terms the Government must promote, support and expedite private initiatives by facilitating access to domestic and foreign markets and by removing administrative barriers that obstruct the start-up and expansion of MSEs. It should also foster inter-institutional and inter-enterprise dialogue, cooperation and coordination in favour of MSEs. To do this, the Government has two types of instruments: promotion and formalization.
- **MSE legal definition.** This definition is exclusively based on the number of workers: Thus, a micro-enterprise has up to 10 workers, a small enterprise more than 10 and less than 40 workers.
- **Formalization.** In this respect, minor modifications were made. One of the most important, for example, is that the Municipal License is no longer free of charge, although its cost has to bear a direct relationship to the administrative cost of issuing it. In addition, for the sake of transparency, this cost has to be included in the Administrative Procedure Text (TUPA) of the corresponding municipalities and the expenses deriving from zoning permits and Compatibility of Use procedures have to be displayed publicly.
- **Promotion and development.** These were only guidelines since the Law did not include clear mechanisms for their implementation.

³⁹ The RUC is described in more detail in section 3.3.

⁴⁰ Conversations with Members of the MSE Coordination Board.

- **Training.** The Law limited the Government's role to fostering private initiatives in the provision and development of training activities for MSEs. The Government only carries out supplemental training activities either directly or through agreements with the private sector.⁴¹ In organizational terms, a Coordinating Entity was established to coordinate the training activities in various sectors. This organization would comprise representatives from the Government and from MSEs.⁴² Its function is to coordinate, design and recommend business training activities to private and public organizations and institutions whenever pertinent. The Executive Secretary of the Coordinating Entity, designated by PROMPYME, is responsible for carrying out the decisions of the Special Commission.⁴³
- **Technical assistance.** The Law establishes that the Government promotes private initiative in the provision and development of technical assistance for MSEs. The Commission for the Development of MSEs (PROMPYME) will offer technical assistance to MSEs, preferably through specialized private institutions or enterprises. To do this, PROMPYME must coordinate with the relevant ministry and intended beneficiary MSEs. MITINCI will promote the national consolidation and expansion of the Network of Artisan and Business Service Centres for MSEs in coordination with other public and private agencies, in order to increase their efficiency.
- **Technological innovation.** The Law indicates that the Government must promote technological modernization of MSEs and the development of a market for technological services, in order to increase competitiveness in the MSE sector. This should be done by providing (along with private initiative) research, innovation and technology services and by encouraging market expansion, including training, technical assistance, survey, consultation, laboratory services and pilot tests. The MITINCI will also promote the Network of Technological Innovation Centres (CITES), in order to encourage innovation, quality and productivity in enterprises, particularly MSEs.
- **Finance.** The Law clearly states that the Government has no involvement in the national financial system except for investments in COFIDE as a "second tier" development bank. COFIDE negotiates and obtains other sources of credit for MSEs

⁴¹ Without prejudice to this, the MITINCI through the Small and Micro-enterprise Programme will progressively implement at the national level, either directly or through the Regional Industry and Tourism Offices, training programmes for MSE workers and entrepreneurs. To do this, it may act directly or through agreements and alliances with private or public institutions that offer business management or technical skills training. The purpose of these training programmes would be: a) Stimulate and expedite access to consultancy and training services, through Technical Assistance and Training Vouchers or other mechanisms to be created, b) Promote and strengthen private Business Development Service providers for MSEs, such as Business Service Centres and Private Development Organizations, c) Enhance the skills of consultants and trainers of private institutions offering services to MSEs, d) Make information on training available to MSEs in coordination with the Business Information System (SIEM) and e) Promote the creation and development of new business initiative through public and private institutions.

⁴² The Ministry of Industry, Tourism, Integration and International Trade Negotiations (MITINCI), who presides over it, the Ministry of Education, the Ministry of Labour, the Ministry for the Promotion of Women and Human Development, the Ministry of the Presidency, the National Assembly of Rectors, and the small and micro-enterprises, nationwide.

⁴³ MSEs in manufacturing or installation, repair, and maintenance services' activities which are not obliged to pay taxes to the National Industrial Job Training Service (SENATI), would be subject to, at their request, the National Industrial Job Training Service Law (*Ley del SENATI – Ley N° 26272*). For this purpose, the National SENATI Council approved the payment scale for enterprises or their workers who voluntarily accessed these services.

and acts as a financial intermediary. The Government must promote the institutional strengthening of enterprises that carry out financial operations, preferably for MSEs, such as the Municipal Savings and Loans Banks (CMACs), the Small and Micro-Enterprise Development Enterprises (EDPYMES), the Rural Savings and Loans Banks (CRAC) and the Savings and Loans Cooperatives. In particular, the Government, through COFIDE, will stimulate the provision of training, technical assistance and other services, in order to foster financial technology, innovative short and long-term financial products, and to enhance management skills in enterprises and institutions providing financial services to MSEs.

- **Commercialization.** The Law establishes that the Government must promote the development of sub-contracting systems, the formation of consortiums, government purchasing, fairs and other mechanisms to facilitate MSE access to larger and better markets. To do this, PROMPYME and other competent public institutions will foster coordination with private enterprises or agencies in this area. As for government purchases, it was established that MSEs would participate in government contracting and purchasing processes and that preference should be given – as long as prices, quality and supply capability were similar – to those products produced by domestic MSEs. In order to compete, MSEs can form consortiums. Finally, the Government should support and expedite the promotion and organization of fairs and exhibitions. International events, however, are the responsibility of PROMPEX.
- **Information systems.** Public and private institutions specialized in the management of information systems for MSEs, or that have useful information for them should expedite MSE access to information through the internet, the media, newsletters and bulletins among other means, either free or at cost. The National Tax Administration Superintendency (SUNAT), through the Business Information System (SIEM), should provide different Ministries and the Health Service Supervising Agency (ESSALUD) with timely and up-to-date information useful for their activities and for MSEs promotion, such as information resulting from the registration and updating of the Taxpayer's Registry (RUC).
- **Industrial parks and “Maquicentros”** The Law proposes that the Government promotes private investment for the creation of Industrial parks and the renovation and use of existing ones. PROMPYME is in charge of this in conjunction with regional and local governments. Also, the Government must foster the creation and operation of training centres for MSEs (“maquicentros”) to enhance MSE workers' and owners' technical skills. The “maquicentros”, after evaluation, approval and inter-institutional agreement, may be administered by Administration Institutions of “maquicentros” (*Instituciones Administradoras de Maquicentros*), be these private or public, technical or vocational education institutions.

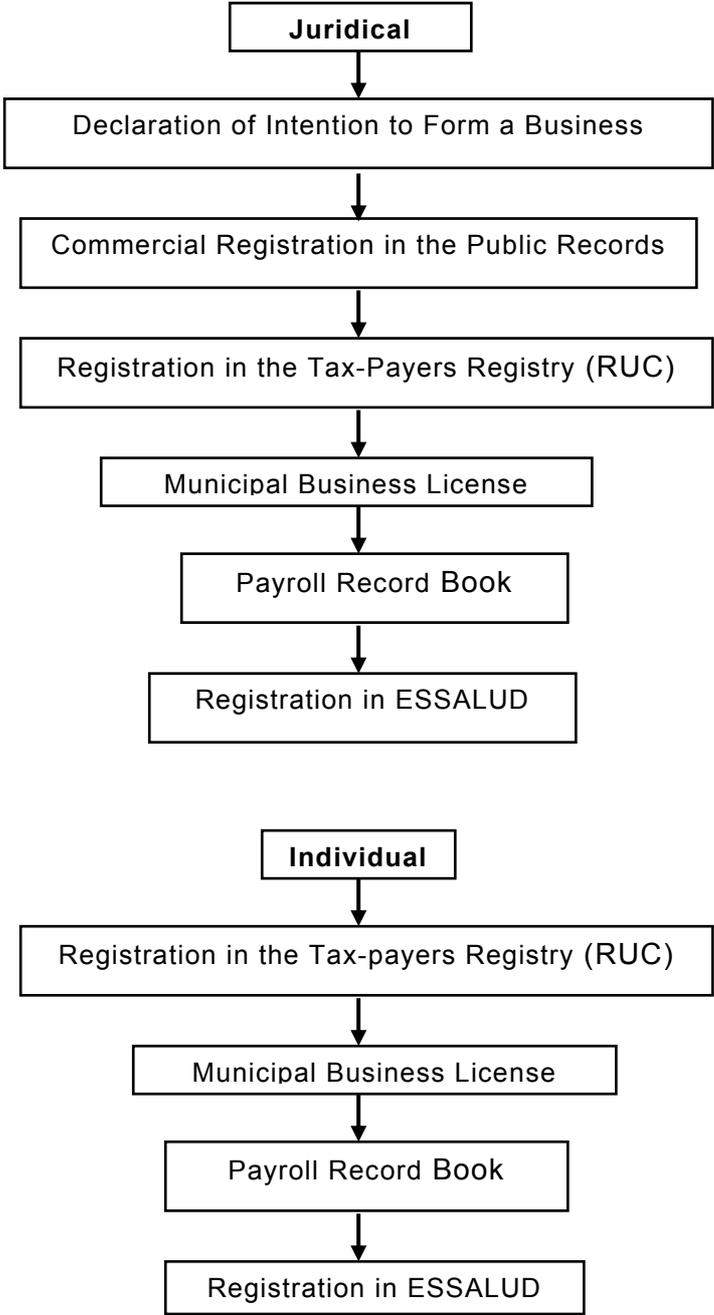
The recently passed Small and Micro-Enterprise Law contains many good intentions but just how far its recommendations can be implemented is in doubt. The following sections give a more detailed analysis of relevant issues for MSEs in Peru.

The reader is also referred to Annex 3. Section I of this annex refers to Specific MSE Policies; Section II to Registration and Business regulations.

2.2 Registration and business regulations

What does the current MSE registration and operation regime entail? The registration procedures differ according to the constitution of the economic unit, and whether they are individuals or “juridical” persons.⁴⁴ This can be more clearly appreciated in Figure 2.1. In order for an economic unit to be formally registered, it is necessary to obtain the following documents:

Figure 2.1: Registration sequence for individuals and juridical persons



Source: Prepared by the author based on the relevant legislation.

⁴⁴ Private individuals (*persona natural*) are those who receive income deriving from their work or capital investment whereas juridical persons (*personas juridicas*) are entities separate from their individuality, who are legally capable of acquiring rights and entering into obligations as a business association.

- **Tax-payers Registry (RUC).** This register pertains to the Tax Administration Superintendency (SUNAT). It includes information about every juridical person and individual, undivided estate, joint venture or other collective association, Peruvian or foreign, domiciled or not in the country, that according to current laws is required to pay taxes or tributes that SUNAT is responsible for administering or collecting.
- **Municipal Business License.** A document supplied by municipal authorities, it is the permit needed to create a business and run it. It must be obtained by individuals or businesses whose economic activities make use of premises, establishments or workshop. Previous Registration in the RUC is a prerequisite for the municipal license. The recent General Small and Micro-enterprise Law stipulates that it is possible to charge for the license in the following manner: those registered in the RUC should pay the equivalent of one UIT whereas those registered in the RUS should not pay more than 10 per cent of the UIT.⁴⁵
- **Payroll record book.** This must be kept by each establishment and be certified by the Labour Ministry. This certification requires the presentation of the RUC registration and the payment of 1 per cent of the current UIT.
- **Registration in the Social Health System (ESSALUD).** Employers must register within 10 days of having opened the payroll record book. The prerequisites are: a) the employer's identification documents, b) certified payroll record books, c) RUC registration, d) municipal license, industrial registration or business registration, and e) the declaration of the intention to start a business in the case of juridical persons.

How can this affect job quality in MSEs? More than a decade and a half ago, De Soto (1984) demonstrated that setting up and running a small industrial workshop required eleven prerequisites that took a period of 289 days to obtain and cost a total of US\$1,231. For commercial activities, the procedures involved three public departments or divisions, took 43 days and cost US\$5,090. CINSEYT (1998) calculated that the figures had changed. For small industry, the legal procedures had decreased to 5, took 30 days and cost US\$200. For commercial activities, it involved four steps in a period of 30 days and cost US\$85.

These changes took place due to several initiatives to simplify administrative procedures for registering informal property. Many hoped that these changes would lower the levels of informality and thus improve job quality. Nonetheless, no impact study has been made of these measures. In any case, no major changes have been observed in the level of informality. As this report will later show, this may be due to the Government's inability to enforce its regulations.

2.3 Tax policies

The Peruvian tax system has two basic components: a central government one and another administered by local governments. Annex 3, Section III summarizes various aspects of tax policy and legislation.

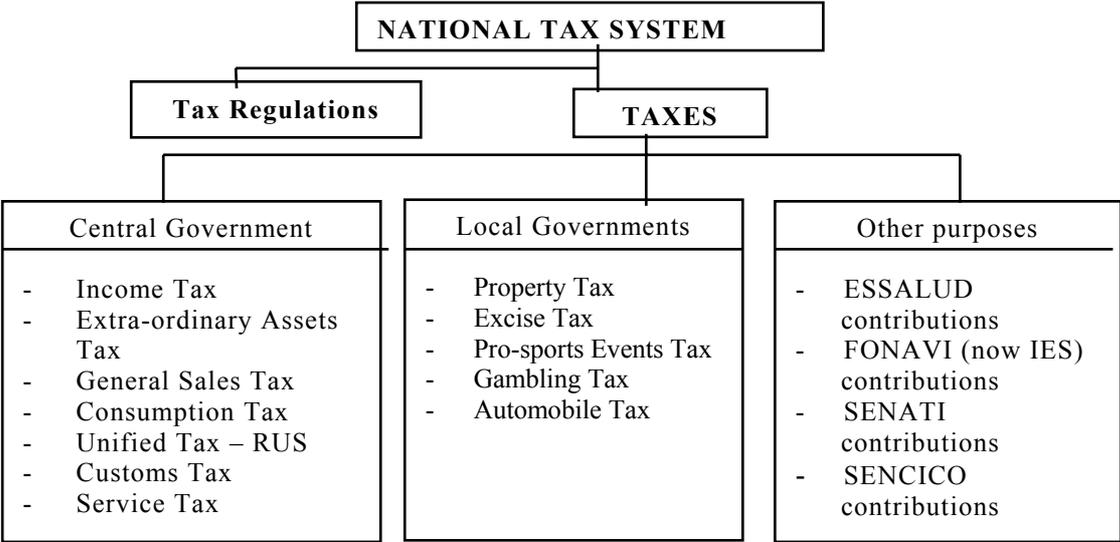
The national taxes are administered by SUNAT, responsible for internal taxes such as income tax, general sales tax, selective consumption tax, and the Unified Tax Regime (RUS).

⁴⁵ The Law establishes that municipalities may not charge fees for renewals except when there is a change in the type of business, use, or zoning in the area where the establishment is located.

It should be pointed out that the National Customs Superintendency (SUNAD) is also in charge of administering the duties on imported goods.

Local taxes are administered by local governments (municipalities), who are administrators only and may not create new tax laws. They only administer taxes assigned to them by national laws (property tax, motor-vehicle tax, real-estate closing tax, pro-sports events tax), as well as municipal tariffs and fees for licenses, excise and duties.

Figure 2.2: Tax system outline



Source: Prepared by the author with data from www.sunat.gob.pe.

National taxes

Before the 1990s, the national tax system was characterized by numerous rates as well as numerous and various exemptions. This made control and collection difficult for the authorities. A significant tax reform was implemented in the early 1990s to make the tax system more efficient and equitable.

The general reform of the tax system eliminated most of the existing exemptions and set the stage for more efficiency. The basic idea of the reform was to fulfil certain basic principles concerning tax policy and its efficiency: a) simplicity, b) neutrality across economic actors, c) neutrality of the general sales tax along the value added chain, d) stability over time, and e) easy to administer by the SUNAT. These aims clearly show that the purpose of this reform was not to generate ways for formalizing small businesses.

After its initiation, it was rapidly seen that in terms of taxes collected, it had reached its aims: the current National Tax Administration Superintendency (SUNAT) has become one of the best regarded and efficient branches in public administration. It adequately detects tax evasions, which are frequent. It also became quickly evident that small-scale economic units needed special treatment. SUNAT had no interest in formalizing them; its purpose was rather to keep their particular characteristics from “punching a hole in” or weakening the tax system,

particularly through their use of tax credit.⁴⁶ In order to deal with this situation, two special tax regimes were created: the Unified Tax Regime (RUS) and the Special Income Tax Regime (RER).

There are three regimes that are of interest here and Table 2.2 provides a comparison of them.

Table 2.2: A comparison of current tax regimes

| | General Regime | Special Income Tax Regime (RER) | Unified Tax Regime (RUS) |
|-----------------------|---|--|---|
| Eligibility | All enterprises | Producers and retailers Yearly income not exceeding 216 thousand soles | Retailers Yearly income not exceeding 216 thousand soles Only 1 establishment Up to 4 workers per shift Establishment surface area of less than 100 m2. |
| Tax obligations | | | |
| Sales tax | 18% of the sales. There is tax credit when a receipt is given. | Same as the general regime. | Exempted |
| Income tax | 15% for income up to 152 thousand Soles and 30% for amounts above this figure (re-investments are deducted) | 2.5% of the total net monthly income (turnover). | Exempted |
| Municipal development | 2% of the sales (collected with the sales tax) | Same as the general regime. | Exempted |
| Unified Tax (RUS) | Not applicable | Not applicable | Fixed amount (instalments) according to the level of income. |
| Other taxes | In accordance with each specific tax | Same as the general regime. | Same as general regime |
| Administrative terms | | | |
| | Receipts must be given | Receipts must be given | Receipts are not necessary (they do not have the right to tax credit) |
| | Tax declarations must be filled. | Tax declarations must be filled. | Do not have to fill tax declarations |
| | All the records required by law | They must keep a register of purchases and sales. In addition, the Register that is kept for Sales Tax purposes is also used for Income Tax purposes | Not obliged to keep accounting records. |
| | Several payments a month | Several payments a month | Only one definitive monthly payment |
| | The income tax payment is made using the general form. | The income tax payment is simpler (it does not require the use of the general form) | Income tax is not paid |

Source: Prepared by the author from current tax legislation.

⁴⁶ It should be pointed out that any productive unit can issue invoices (proof of payment receipts authorized by SUNAT) that are used for tax purposes. SUNAT believes that the small production units have a high incentive to misuse these invoices.

First, the **General Tax Regime**, applicable to all enterprises. According to data from SUNAT, the main Peruvian taxes are the General Sales Tax (IGV) and Income Tax (IR).⁴⁷ Sales tax is 18 per cent although it is possible to obtain a type of tax return (tax credit), which in reality converts this tax into a value-added tax. To receive tax credit it is necessary to present receipts as evidence of commercial transactions. Of this 18 per cent Sales Tax, 16 per cent is for the central government, the remaining 2 per cent go to the municipality (this is known as *Promoción Municipal* - Municipal Development Tax).

Income tax has two different rates. Those enterprises whose income is not more than PEN 152,000⁴⁸ a year (about US\$43,000) pay 15 per cent tax. An income greater than this amount is taxed at 30 per cent.

Second, the **Special Tax Regime (RER)** is for individual or juridical persons whose yearly income is not more than PEN 216,000 (about US\$60,000).⁴⁹ The benefit of this system is that the formal obligations to be fulfilled are quite straightforward and RER contributors only have to pay 2.5 per cent monthly over their net income (the difference between income and outlay). It should be pointed out that this regime only expedites the payment of income tax since it does not affect the obligation to pay sales taxes.

Third, the **Unified Tax Regime (RUS)** is for individuals (or undivided estates) that sell to final consumers and therefore are not required to give invoices but only sales tickets or cash register slips. People with yearly incomes not over PEN 216,000 (about US\$60,000) can make use of this regime. Its benefits consist in the fact that the formal obligations are easy to fulfill and taxes are only required to be paid at a fixed quota that varies according to the level of income. There are 8 categories that range from those earning less than PEN 2,200 (US\$628) a month to those earning between PEN 15,000 and 18,000 a month. Monthly payments vary from a minimum of PEN 20 (US\$5.7) to a maximum of PEN 540 (US\$154).⁵⁰ Table 2.3 shows the applicable values.

Table 2.3: Monthly RUS contributions (PEN)

| Categories | Maximum total sales or monthly services | Gross tax | Maximum deduction for tax credit | Monthly contribution |
|------------|---|-----------|----------------------------------|----------------------|
| A | 2,200 | 80 | 60 | 20 |
| B | 4,600 | 255 | 205 | 50 |
| C | 7,000 | 560 | 450 | 110 |
| D | 8,600 | 910 | 740 | 170 |
| E | 9,700 | 1,190 | 950 | 240 |
| F | 12,000 | 1,520 | 1,200 | 320 |
| G | 15,000 | 2,040 | 1,630 | 410 |
| H | 18,000 | 2,700 | 2,160 | 540 |

Note: PEN = Peruvian Nuevo Soles.

Source: Tax legislation.

⁴⁷ Some special regimes should also be mentioned here. Those involved in farming and animal husbandry whose yearly sales do not exceed 50 UITs are exempted from paying sales tax, municipal development tax and income tax. In mining and fishing, there are special incentive measures for small production units.

⁴⁸ PEN = Peruvian *nuevo sol*. Also referred to elsewhere in this report as *soles* or the symbol S/-.

⁴⁹ This system can be used by economic units earning their income from selling goods that they acquire, produce or transform. This includes extraction activities such as mining and fishing, animal husbandry, agriculture, and the production of goods on demand. It excludes construction and service enterprises.

⁵⁰ There is a special category for people selling vegetables, fruits, pulses, tubers and other specifically named agricultural goods: no tax is paid as long as their monthly income is no more than PEN 2,200 (US\$628).

In order to verify and measure monthly incomes, SUNAT requires business units to keep and have available (for a period of four years) all receipts, sales slips, cash register receipts, etc. *for purchases* (to justify the possession of their merchandise); *for sales* (to justify the monthly income obtained); to issue only the receipts established by the regulations; and to *make the monthly instalment payments* to SUNAT.

One important consequence of this tax regime created for small business units is the limits it places on giving *receipts* for transactions – a factor that does not promote the sub-contracting of MSEs by larger enterprises since these are obliged to demand these documents when they sub-contract work to other enterprises.

The enterprises for which these two regimes were created were quick to affiliate with them. For example, in 1999, there were 134,000 tax-payers registered in the RER and 595,000 registered in the RUS regimes. Despite this large affiliation, the taxes collected in these regimes is less than 1 per cent of the total collected by SUNAT. According to some SUNAT civil servants, “*the cost of administering this tax could be larger than the amount collected from it.*” Although this statement is anecdotal, it indicates that due to its general orientation, it is difficult for SUNAT to administer taxes from which so little is collected.

Municipal taxes

Regarding taxes administered by local governments (municipalities), as a result of centralization, municipalities are largely subject to the power of the central government. The municipal tax system is regulated by DL 776 (Legislative Decree 776), which establishes three types of municipal income:⁵¹

First are municipal taxes such as property tax, excise tax, automobile tax, and gambling, sport events and show taxes. Among these, property tax is the one that directly affects MSEs, since MSEs operate on their own property.

Second are municipal tariffs. The national constitution mentions that municipalities may create, modify and suppress contributions and tariffs. The peculiarity of these tariffs is that they give rise to counter-offers of services. Thus, municipalities have created novel ways of “providing services” – for example, special contributions for public works, local excise taxes, administrative service fees, business licenses, parking fees, etc.

Third are municipal taxes collected by the central government. In this respect one can mention the Municipal Development Tax (IPM) which, as previously mentioned, is collected as part of the Sales Tax. There is also a road tax (for those with vehicles), customs duties and ship taxes.

In reality, the main source of finances for the municipalities comes from the municipal development tax, followed by property tax, local excise taxes, and tolls.

⁵¹ The story of DL 776 is well known. It was created as the result of a dispute between the central government and the municipal government, in particular with the mayor of Lima at that time, Ricardo Belmont. This decree took numerous sources of income away from the municipality of Lima and other large municipalities in general. In lieu of this there is now a common fund, FONCOMUN, from which the Ministry of the Economy and Finance (MEF) makes monthly transfers to the municipalities.

2.4 Labour laws

In the Peruvian labour legislation, there are only very few cases of special treatment for small businesses. In conjunction with this section, Annex 3, Section IV summarizes various aspects of labour laws and policy.

With regard to collective rights, as Table 2.4 shows, the only difference between large and small enterprises is that unions can only be formed in enterprises with more than 20 workers.⁵²

A sector trade union must include more than half the workers of a certain branch of activity. In regard to collective bargaining there are no major differences between large and small enterprises: in enterprises with less than 20 workers, the two representatives elected by the workers can also legally present complaints and even bargain with the employer. Nevertheless, the low job quality in most MSEs and the superior bargaining power of the employer due to the lack of available employment mean that forming a union or some other similar type of organization is not a priority among workers in smaller enterprises.

Table 2.4: Collective labour rights – General regime and specific regimes for MSEs

| Collective rights | General regime for all enterprises | Special regulations for small enterprises |
|---|--|---|
| Right to association | Enterprises with more than 20 workers | Those with less than 20 workers may not have unions but may elect two fellow workers to represent them. |
| Legal rights of organized labour | None | None |
| Bargaining ambit | Enterprise, business activity or trade union | No difference |
| Bargaining content | Wages, work conditions, productivity and other matters related to the worker-employer relationship. | No difference |
| The right to information and consultation | In regard to the economic, financial, and social situation as well as others pertinent to the enterprise. | No difference |
| Parties that can legitimately negotiate | It depends on the negotiation level. If it is at the enterprise level, the existing union or the representatives elected by their fellow workers negotiate. If it is by profession, the trade union negotiates with the organization representing the employers. | No difference |
| Effectiveness and coverage of agreements | The agreements are legally binding for the parties that adopt them. | No difference |
| Settlement of conflicts | Direct negotiation (obligatory), conciliation and arbitration. In the case of the essential public services, arbitration is obligatory. | No difference |

Source: prepared by the author from labour legislation documentation.

⁵² The law establishes the minimum number of workers necessary to form a union is twenty. However, when there are insufficient workers to form a union, they may elect two delegates (who act as a type of committee) to represent them before the employer and the Labour Authority.

As Table 2.5 shows in regard to individual rights, there are no differences in relation to hiring personnel and dismissing them, or with the regulations concerning wages and the legal workday. The Legal Minimum Wage is established by the Government and is PEN 445 a month at present. The legal workday is 8 hours, and there is a set of regulations for the compensation of workers who work longer hours.

Table 2.5: Individual labour rights – General regime and specific regimes for MSEs

| Individual rights | General regime for all enterprises | Special regulations for small enterprises |
|--------------------------------------|--|--|
| Hiring and dismissal | | |
| Forms of employment | Permanent/temporary training | No difference |
| Forms of dismissal | Dismissal is justifiable only in cases of serious misconduct, worker incompetence or economic reasons. For arbitrary (unjust) dismissal, the worker receives an indemnity of 1.5 monthly salary per year worked. | No difference |
| Trial period | Three months | No difference |
| Remuneration and work-day | | |
| Minimum Wage | 435 soles | No difference |
| Solidarity Tax (FONAVI) | 5% of third and fourth category incomes | |
| Legal work-day | 8 hours | No difference |
| Overtime pay | 25% or time off in compensation | No difference |
| Paid weekly time off | One work-day | No difference |
| Paid holidays | One day's pay | No difference |
| Benefits paid by the employer | | |
| Paid Vacations | 1 month a year | No difference |
| Temporary allowance for dependents | 10% of the Minimum Wage | No difference |
| Bonuses | 2 extra monthly salaries a year | No difference |
| Bonus for time worked | 30% pay increase after having worked 30 years for the same enterprise | No difference |
| Profit-sharing | Applicable to enterprises that produce a profit | Enterprises with 20 workers or less are exempted |
| Health insurance (ESSALUD) | 9% paid by the employer | No difference |
| Compensation for time worked | 1 monthly salary per year worked | No difference |
| Pensions | % paid by the worker ⁵³ | No difference |
| Life Insurance | For workers with less than 4 years of service 0.53% to 1.46% of their salary | No difference |
| Occupational Accident Insurance | Only for blue-collar workers (<i>obreros</i>) (from 1% to 12.2%) | No difference |
| SENATI (Industrial sector) | 0.75% of the payroll | Enterprises with 20 workers or less are exempted |

Source: Prepared by the author from labour legislation documentation.

Labour relations are influenced by the type of contract and standards for hiring and dismissing personnel. All sizes of enterprises may have workers with permanent contracts, temporary contracts, or training and intermediary⁵⁴ contracts or agreements.

⁵³ This includes an 8 per cent contribution to the pension fund, a variable commission, and an insurance policy.

⁵⁴ The workers are provided by "Services" or cooperatives.

Some differences in employee benefits exist according to the enterprise size (see table 2.4). For example, all enterprises are required to supply their workers with health, occupational accident, and life insurance; a pension plan, family allowance, bonuses and compensation for the number of years worked. However, enterprises with less than 20 workers are exempted from profit sharing (done yearly), and from making contributions to SENATI if they belong to the industrial sector. The SENATI contribution is a self-imposed obligation that the industrial sector enterprises make in order to train their workers.

2.5 *Trade policies*

One of the most frequent problems faced by small-scale economic units is their scant ability to find wider markets for their products. What are the measures that have been taken in the last few years to promote the sale of MSE products?

At the **domestic level**, the entity is PROMPYME, which promotes three basic types of services: sales promotion, sub-contracting and government purchases for the MSE sector. Promotion entails information dissemination, promoting MSE consortiums, fairs, showrooms and, in general, activities concerning market dynamics.⁵⁵ With regard to sub-contracting, it must promote the signing of agreements between medium and large enterprises and the organization of MSE suppliers in order to foster commercial ties between them. It must also select and evaluate private institutions or enterprises that provide training and technical assistance necessary to improve the efficiency and competitiveness of MSEs in line with the technical requirements of medium and large enterprises.

PROMPYME must also try to pair up MSEs with government needs.⁵⁶ It has been established that national MSEs should participate in bids for government purchases and contracts, and that they should be given preference as long as they offer similar prices, quality and supply capacity. Public entities must provide PROMPYME with information concerning government purchases so that it can quickly and opportunely inform MSEs of the specific needs of the Government. In addition, PROMPYME must provide orientation about the administrative procedures for government purchases.

With regard to **foreign markets**, two types of action are being taken. One is indirect and has to do with Peruvian trade policies. Although there is no distinction for enterprises of different sizes, there are some particularities depending on the value of imports/exports. For example, custom laws establish that imports totalling less than US\$2,000 are only subject to import tax and income tax. If these total more than US\$2,000, they are also subject to custom fees which are usually fixed amounts. In regard to exports, there are no export taxes but rather a system of custom duty returns, called drawback, that permits the exporters to receive 5 per cent of the sales in FOB value if they use imported raw materials in their production process. Finally, the lowering of fees for capital assets and raw goods that took place during the past decade may have benefited MSEs that imported these types of materials, but the reduction of import duties for finished products must have had a negative effect on the sector. In any case,

⁵⁵ For this, it must: a) improve access to existing and potential markets at the local, regional and national level, b) adapt the government purchasing regulations and standards so MSEs can participate effectively, c) broaden and consolidate both horizontal and vertical business ties, d) expedite access to financing, and e) strengthen the institutions and enterprises that offer non-financial services to MSEs. Although such initiatives would clearly fulfill a vital role in the development of MSEs, PROMPYME is unfortunately still restructuring.

⁵⁶ The programmes for buying school shoes, desks, gym-suits and sweaters carried out by the Ministry of the Presidency through the National Compensation and Social Development Fund (FONCODES) are noteworthy.

there is a lot of smuggling in Peru, and various analysts have agreed that this has had a negative effect on the development of MSEs.

The second type of action for foreign markets is direct and is carried out by the Export Development Commission (PROMPEX), to support exports by small and medium enterprises. Among its activities, PROMPEX includes yearly trips abroad for MSE entrepreneurs in order to foster MSE product exports. In coordination with the ministries of the relevant sectors, it also carries out a permanent training programme for MSE entrepreneurs so that they can adapt their products to the quality standards required by the international market.⁵⁷

Annex 3, Section V summarizes various aspects of trade policy.

2.6 Financing

Perhaps one of the most studied matters concerning MSEs is financing. The general opinion is that the financial system has difficulties handling the needs of small businesses. Therefore, attempts have been made for over four decades to help this sector.⁵⁸ A summary of the principal policies, laws and regulations related to finance is contained in Annex 3, Section VI.

In the 1990s, a change occurred with an increased emphasis on market criteria for the development of financial programmes and support projects. The development banks (specifically the Industrial Bank) that had financially supported the sector for decades were eliminated due to the Government's general withdrawal from financial intervention. An environment favourable to the growth of micro-finance was created. Interest rates could be set freely, and the subsidized credit programmes were deactivated. Likewise, the current Banking Law permits the formation of non-banking financial institutions, such as EDPYMES and Municipal and Rural Savings and Loans Associations, by setting limits for minimum income and capital that are not very demanding. Thus, in December 1994, the organization and operation of Small and Micro-enterprise Development Institutions (EDPYMES) were authorized and in November 1996 the Fund for Supporting Small Enterprises (FONREPE) was created by Legislative Decree No.879. This fund was to be used to establish a credit insurance scheme for small enterprises by means of a contingency fund that would act as a reinsurance fund (it is currently inactive). Finally, in 1998, the Micro-Enterprise Bank (MIBANCO – a private company) was created to provide credits to the MSE sector.

It should be indicated that current regulations have also established standards for evaluating and classifying debtors, including the possibility of simplifying the documents required for credit evaluation. It has also been established that during the first three years, every intermediary must capitalize 100 per cent of the profits generated in order to strengthen the assets of the non-banking finance institutions.

⁵⁷ PROMPEX carries out activities such as: a) assessment, technical assistance and training for small and medium enterprises involved in export, b) promotion of mechanisms that expedite financial access for small and medium enterprises involved in export, c) promotion of the uptake of credit resources to progressively satisfy the financial needs – pre-investment, investment, work capital – of small and medium enterprises.

⁵⁸ In 1959, the Industrial Development Law (*Ley 13270*) established special conditions for loans to small industry. Later, D.L. No.23039 gave birth to the Municipal Savings and Loans Associations (CMACs). Although originally created to grant loans to individuals, they now also provide loans to small businesses. The Small and Medium Enterprise Law (D. L.23189) of July 1980 created within the Industrial Bank (*Banco Industrial*) the Small Enterprise Development Fund (FOPE) for loans to small enterprises. In 1984, the Small Industrial Enterprise Law (*Ley 24062*) created the Small Industrial Enterprise Development Fund (FOPEI) based on a contribution of 1 per cent of the monthly sales of small industrial enterprises.

The Superintendency of Banking and Insurance is responsible for supervising micro-finance institutions. There are two supervising agencies, one for the CRACs, EDPYMES and MIBANCO and one for the CMACs and liquidations. Both agencies carry out follow-up activities and each micro-finance institution receives at least one visit a year. Nevertheless, it should be pointed out that this follow-up is limited since the Superintendency of Banking and Insurance (SBS) considers the financial risk of these entities for the system as a whole to be minimal.

2.7 Innovation and training policies

With regard to technological development, there are two types of regulations. First, there are general regulations which do not specifically mention MSEs. Annex 3, Section VII summarizes the principal enabling and innovation policies, laws and regulations. The most important of these are:

- The Law and regulation concerning foreign investments and the use of foreign technology, patents, trade-marks and licenses (Resolution CONITE NO 003-91-EF/35 of 13 March 1991). The National Commission of Foreign Investment and Technology (CONITE) is charged with implementing it.
- The Law establishing the organization and functions of the National Institution for the Defence of Competition and the Protection of Intellectual Property (INDECOPI), Law Decree No.25868, the Industrial Property Law, Legislative Decree (No.823) and the Regulation Protecting the Rights of Vegetable Farmers approved by Supreme Decree No.008-96-ITINCI. Dispositions are carried out by the Office of Inventions and New Technology (INDECOPI).
- The Constitutional Law of the National Science and Technology Council (CONCYTEC). CONCYTEC is responsible for directing national science and technology policy. It is presently carrying out a study reviewing the situation nationally in order to design a medium and long term strategic scientific and technological development plan for Peru.
- Decision 344 of the Cartagena Convention Commission establishes a common regime concerning industrial property for the Andean Sub-region countries. Decision 345 of the Commission to protect the rights of the vegetable farmers is applicable to all the countries belonging to the Andean Community of Nations (CAN). The application of these standards at the international level is in the hands of the CAN Secretary.

Other regulations are more specifically for MSEs. For example, the recent Small and Micro-Enterprise Law establishes that the Government must promote investment in research and technological innovation oriented towards improving productivity, widening markets, strengthening association among enterprises and integration of supply chains, as well as job creation and boosting innovations.

Additionally, the Law proposes that MITINCI, within the framework of Law No. 27267, promotes the Network of Technological Innovation Centres (CITES), in order to foster innovation, quality and productivity among enterprises, particularly MSEs. The CITES are public or private entities that promote productivity through innovation and the supply of information to various industries. Although the law creating the CITES does not make any specific reference to MSEs, they are the enterprises that use them the most. In practice, the three currently existing CITES carry out the following activities: a) technical assistance and

attention to the technological needs of the enterprises; b) tests, analyses, certification of compliance with technical specifications concerning production process and raw materials; c) assessment and specialized assistance to vocational education centres, SENATI, tertiary educational centres and others; d) technical assistance and training through experimental plants with new technology; e) services to improve the technology, quality and productivity of enterprises; and f) identification and elaboration of technical standards related to supply chains.

3. Characteristics of the legal framework

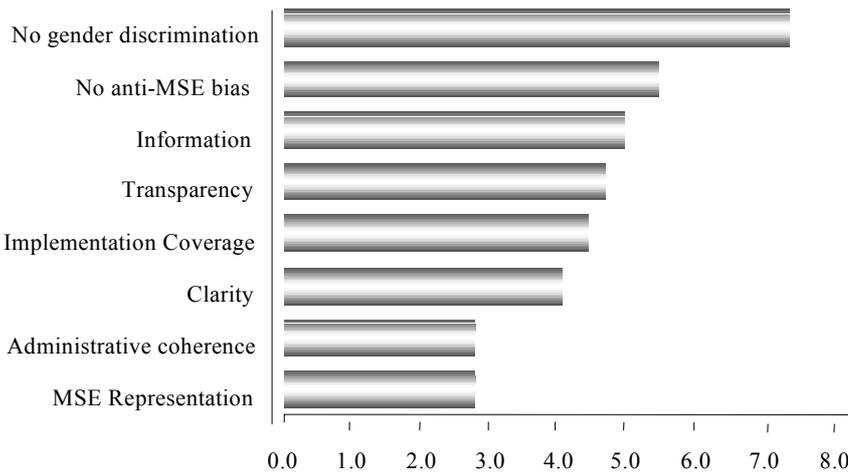
What is the relationship between this institutional framework and the reality of MSEs and the quality of the jobs they create? This section contains a more comprehensive analysis of the set of regulations, laws and policies described above.

3.1 General evaluation

In order to make a general assessment of the legislation and policies, based on systematic evaluation criteria, a written interview form was sent to qualified key informants, among whom were members of the public sector, academicians, and representatives of NGOs and MSE organizations (see Annex 1).

Figure 2.3 shows the results obtained. Those interviewed found that there is no high gender discrimination in the legislation as a whole. Secondly, they have detected a slight anti-MSE bias and a lack of information concerning the laws among MSEs. According to those interviewed, the laws are not very transparent or clear, and there is even less coherence in their administration. MSEs are also insufficiently consulted in their formulation. Annex 5, Table A5 provides more details of the results of the interviews.

Figure 2.3: Qualified informants: Evaluation of policies and laws (level of agreement with indicated criteria)



Note: Qualified informants were asked to use a scale from 1 to 10: a low rating meant that they had a low evaluation of the policies on the different aspects presented to them (transparency, clarity, etc.), a high rating that they considered the policies as satisfactory with regards to the mentioned aspects.

Source: Author’s calculations, using data from the survey prepared for the present study and sent to qualified key informants, 2001 (see Annex 5).

First, the overall opinion is that the legislation is neither clear nor simple.⁵⁹ The conviction is that an intermediary between the law and the common user is necessary, which is a concrete symptom of the general perception that existing legislation lacks clarity and is too complex. There is also a close relationship between level of education and the problems people have understanding the law and using it efficiently. In Peru, the typical level of education is low even in comparison with the rest of the Latin American region. At a given level of complexity the difficulty of understanding a law will be higher for less educated entrepreneurs.

The situation regarding transparency is similar. Sources indicate that the level of transparency is low, a reflection of the serious problems that the Government has had with corruption, especially in recent years. The general belief is that those who make policies are able to benefit personally from this function and a lack of trust has been engendered. It is thought that policy makers have too wide powers and are insufficiently controlled and responsible for their actions. Results show that this is still the case in Peru.

In regard to information, the general perception is that there is relatively easy access to knowledge about the legal framework. However, this access is not very homogenous, especially in regard to enterprise size, since the relative cost of obtaining useful information is greater for MSEs due to the scale of their operations. Then again, these costs are even higher due to the fact that the average educational level in MSEs is lower than for other enterprise size categories.

Concerning coverage, the perception is that despite the existence of regulations – for the promotion of MSEs for example – these remain on paper and are not sufficiently or concretely put into action. For many, there is a huge gap between what the law says and what is actually done. This deviation presents itself in two different ways: the law is simply not applied or its application differs from what the law stipulates.⁶⁰

As for administrative coherence, many say that there is not enough consistency or coordination between the different levels of government in the country. To a large measure this is the result of the conflict between the local and central governments over political ideals and objectives, tax laws, investment in public works, and security issues.

Concerning MSE representation, many of those interviewed, among whom were several civil servants, believe that MSEs are not being given enough representation in the formulation of policies. Nonetheless, the representation process would be extremely complicated since the MSE sector is very large and heterogeneous. Thus, incorporating MSEs preferences and opinions in regulations may be the main challenge facing the authorities in the near future.

As for gender, the general opinion is that the laws do not include any relevant distinction between sexes. Some believe that the law should be used to help eliminate the social bias existing against women in the labour market. Unfortunately, there is little consensus on how to achieve this.

⁵⁹ In light of various studies (Tokman, 1990, for example), this could be one of the worst problems in any legal framework.

⁶⁰ Compared to the other countries part of this international research, many of the laws in Peru are in reality only ‘political’ documents, in other words, documents that do not necessarily have to be followed with concrete actions.

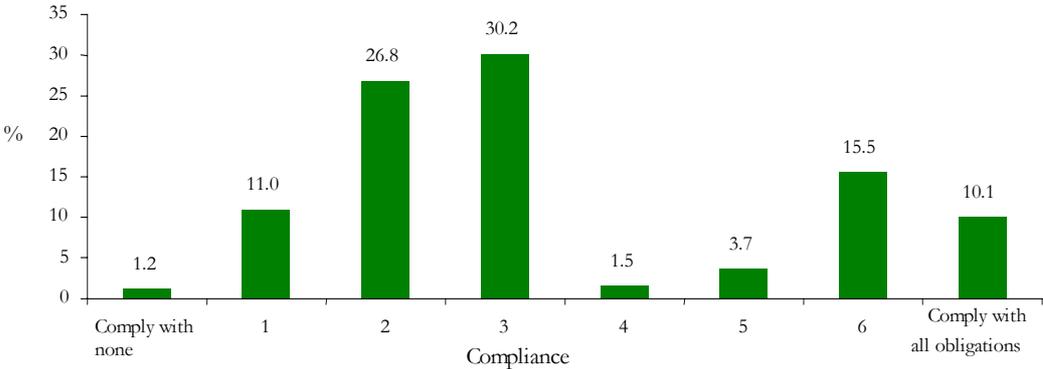
3.2 Compliance

The question arises as to whether or not MSEs can comply with the laws and regulations previously mentioned. To answer this question, the results of a survey carried out in 1996 by ADEC-ATC of 350 MSEs were analysed.⁶¹

One of the first questions is whether or not MSEs comply with laws and to what degree. Some studies (BCR, 1989; Chávez and Chacaltana, 1992; GRADE, 2001) have found that there are not only two categories: compliance (enterprises which comply entirely) on one side, and non-compliance (enterprises which do not comply at all) on the other. On the contrary, there exist certain degrees of compliance or “degrees of formality”, with some enterprises complying to some regulations, others to more regulations, etc.⁶²

Figure 2.4 shows the level of compliance with legal obligations based on a simple compliance index, increased by 1 each time an enterprise complies with one of the regulations covered by the survey. A total of 7 regulations were surveyed, so the index goes from 0-7. The number of enterprises that do not comply with any of the regulations is low, the same is also true for the number of enterprises that comply with all regulations. The majority comply with two or three of their legal obligations.

Figure 2.4: Lima: MSE compliance index – number of legal obligations complied with by enterprises (% of surveyed enterprises)



Note: Index based on a total of seven legal obligations to which MSEs are subject.
 Source: Author’s calculations, using data from the Micro-enterprise Survey (ADEC ATC, 1996).

Table 2.6 shows the reasons for compliance or non-compliance with current regulations. The main reason for compliance given by entrepreneurs was “to avoid problems with the Government”. Those who did not comply with regulations either gave no answer or said they did not believe it was necessary. This last answer was especially common among the smaller enterprises.

⁶¹ The survey results were published in Chávez et al., 1998. Surprisingly, this study did not use the available survey data to analyze the reasons for non-compliance with legislation.

⁶² The legal obligations included in this survey are: a) taxes (income tax and sales tax or RUS) and b) others (FONAVI, currently substituted by the Solidarity Tax (IES), contributions to the health care and pension systems, CTS payments and the municipal business license).

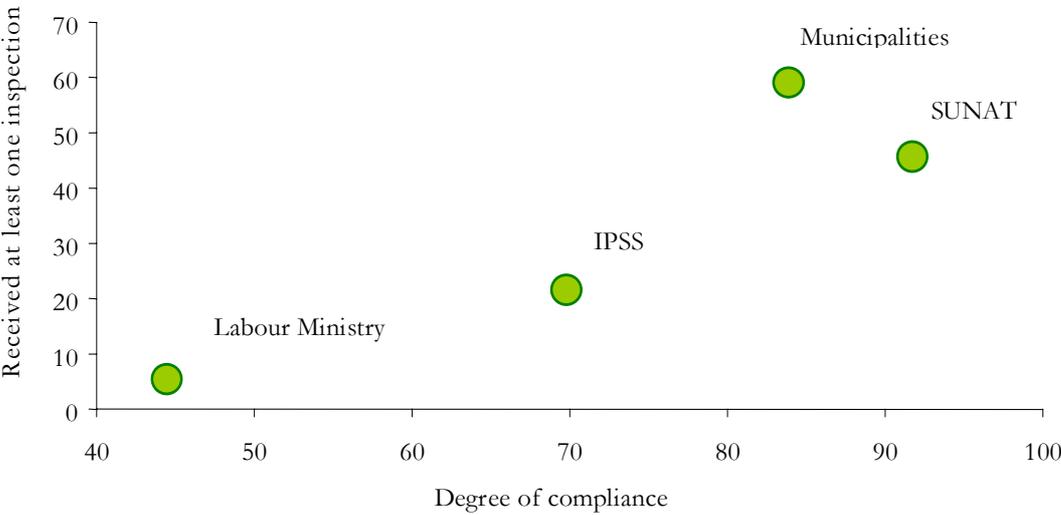
Table 2.6: Lima – Reasons for MSE compliance or non-compliance with regulations

| | Number of workers | | |
|---|-------------------|----------|-------|
| | 1 to 10 | 11 to 20 | Total |
| <i>Reasons for compliance</i> | | | |
| None | 6.2 | 0.0 | 5.8 |
| To avoid problems with the Government | 88.3 | 90.5 | 88.4 |
| Access to benefits | 4.2 | 9.5 | 4.6 |
| Others | 1.3 | 0.0 | 1.2 |
| Total | 100.0 | 100.0 | 100.0 |
| <i>Reasons for non-compliance</i> | | | |
| None | 83.7 | 90.5 | 84.2 |
| Lack of knowledge about taxes and contributions | 0.3 | 0.0 | 0.3 |
| Unfamiliar with payment procedures | 0.7 | 0.0 | 0.6 |
| Complicated administrative procedures | 0.3 | 0.0 | 0.3 |
| Lack of time | 0.3 | 0.0 | 0.3 |
| Informal enterprise | 1.0 | 0.0 | 0.9 |
| Few inspections, little control | 1.6 | 4.8 | 1.8 |
| Unnecessary | 10.1 | 4.8 | 9.8 |
| Others | 2.0 | 0.0 | 1.8 |
| Total | 100.0 | 100.0 | 100.0 |

Source: Author’s calculations, using data from the Micro-enterprise Survey (ADEC ATC, 1996).

Nonetheless, this report proposes that the reason lies in a fact discovered indirectly by the same survey. The study included a question concerning the number of visits made by the agencies in charge of collecting taxes or inspecting accounting records. A report made by Chávez and others (1998) showed that the largest number of inspections was made by the municipalities, followed by SUNAT, IPSS (social security, now ESSALUD) and finally, the MTPS dealing with labour affairs.

Figure 2.5: Lima – Correlation between inspection and MSE compliance



Source: Author’s calculations, using data from the Micro-enterprise Survey (ADEC ATC, 1996).

The number of visits received by MSEs is a good indicator of the probability of detecting infractions. In order to establish the relationship between this and non-compliance with regulations, the degree of compliance was correlated with the number of inspections the enterprises received. Figure 2.5 shows a surprisingly clear relationship between compliance with regulations and the possibility of having infractions detected.

Moreover, Figure 2.5 also shows that the municipalities are more likely to discover infractions in small enterprises. Understandably, local governments which issue business licenses to small businesses, know more about them and thus make it more difficult for these enterprises to escape inspection control.

However, this analysis has only been partial. In order to establish the net effect of this variable on the level of legislative compliance, the following probit model was used:

$$C_i = X'B + u_i$$

In this case C_i is the formality index that ranges from 0 to 7, X is a regressor matrix containing variables that refer to the characteristics of the enterprise, its operation and the number of inspections it receives. Likewise, u_i represents the margin of error. The results of this regression are shown in Table 2.7.

It was found that the size of the establishment, the number of years the enterprise had existed and productivity had a positive effect on compliance. The area of activity is also important, although only in one case (carpentry).

Table 2.7: Metropolitan Lima – Determining factors for MSE compliance

| Dependent variable: degree of compliance | | | | | |
|---|--------------|------------------|----------|-----------------|---------------------|
| Number of observations = | 303 | | | | |
| F(7, 295) = | 11.140 | | | | |
| Prob. > F = | 0.000 | | | | |
| R squared = | 0.209 | | | | |
| Adj. R squared = | 0.190 | | | | |
| | Coef. | Std. Err. | T | P> t | 95% interval |
| Productivity | 0.000 | 0.000 | 3.060 | 0.002 | 0.000 |
| Inspections | 0.009 | 0.004 | 2.170 | 0.030 | 0.001 |
| Age of the enterprise (years) | 0.078 | 0.057 | 1.370 | 0.172 | -0.034 |
| Textile sector | -0.337 | 0.295 | -1.140 | 0.256 | -0.918 |
| Bakery sector | 0.325 | 0.342 | 0.950 | 0.344 | - |
| Shoe-making | -0.053 | 0.336 | -0.160 | 0.874 | |
| Carpentry | -1.744 | 0.322 | -5.410 | 0.000 | |
| Constant | 3.005 | 0.300 | 10.020 | 0.000 | |

Note: Concerning the productivity regressor, although this does not appear in the table, a more precise calculation shows that on average every additional PEN 1,800 in sales per worker would enable an enterprise to comply with one more legal obligation.

Source: Author's calculations, using data from the Micro-enterprise Survey (ADEC-ATC, 1996).

However, as Table 2.7 shows, the number of inspections made by the authorities has a positive effect on the degree of compliance – implying that this particular line of action can go far in improving the level of compliance. Due to their proximity to MSEs, the municipalities could become the most important formalization instrument.

3.3 Policy impact according to MSE entrepreneurs

It is interesting to analyse what MSE entrepreneurs think about the effects policies have on their employment levels and job quality. A recent MSE survey, carried out by the MTPS under the auspices of the ILO, has collected information on the effect of policies on MSE decisions regarding labour. Although based on entrepreneurs' perception – thus placing certain limitations on establishing impact⁶³ – it is useful to present the main results of this survey.

Figures 2.6a and 2.6b show entrepreneurs' perception of the effects of the policies being analysed – MSE-specific law, labour regulations, access to financing, access to technology and training, trade policies, tax policies – on the quantity and quality of jobs generated by their MSEs.⁶⁴

The results are quite similar in regard to both the volume and quality of employment. What stands out is that most of the policy areas analysed either have no effect, or a negative impact – according to MSE entrepreneurs. The only area in which a strong influence (both negative and positive) is perceived concerns the influence of the goods and raw material markets,⁶⁵ an influence to be expected, since employment derives from production and, by definition, labour demand is a derivative of the goods market. Thus, if the market for final goods is highly unstable, labour demand will also be unstable. This definitely affects MSE job quality.

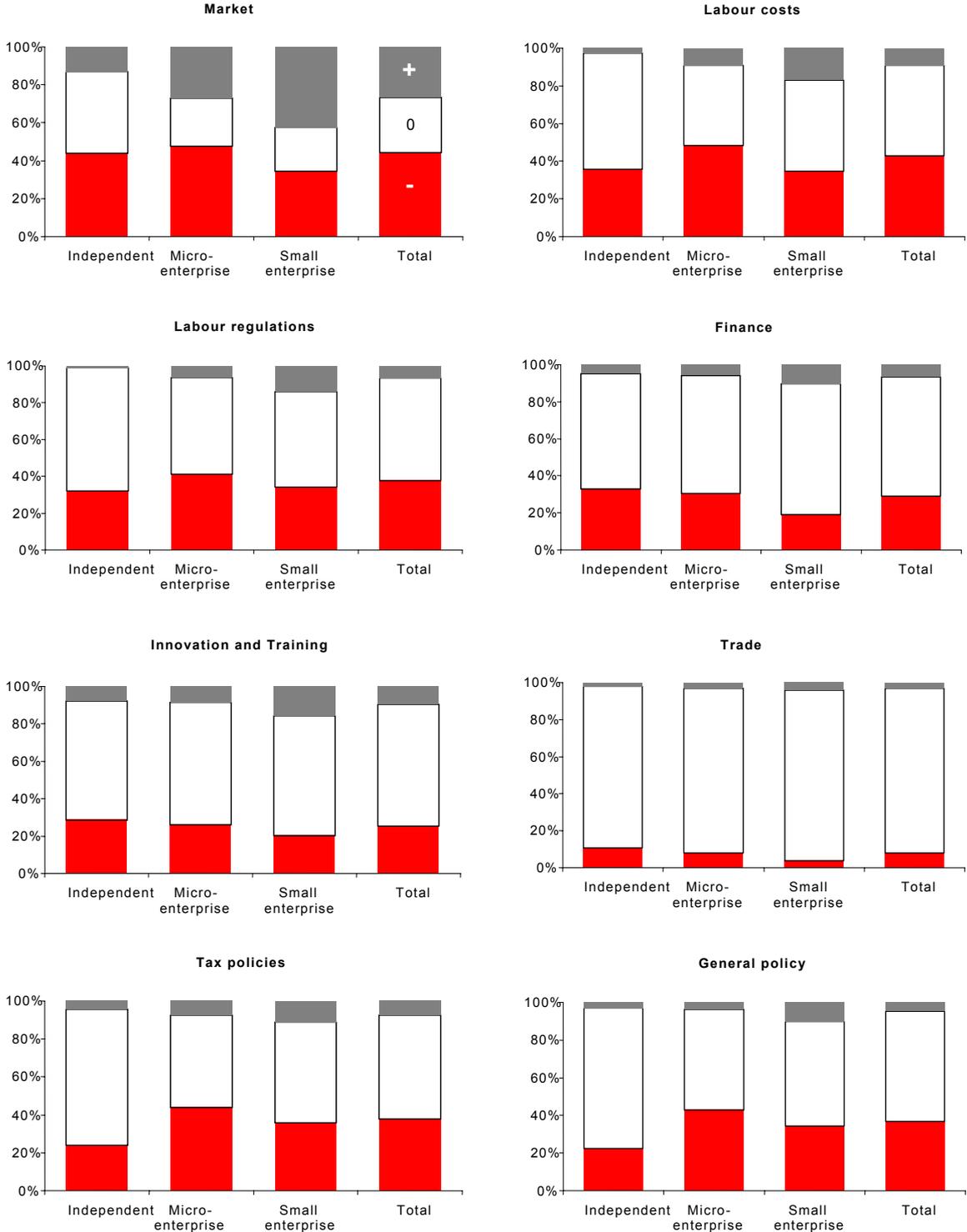
It is important to note that there are slight differences in responses depending on the types of enterprises. In regard to all the policies, own-account workers perceive less impact than other small and micro-entrepreneurs; and small entrepreneurs perceive the impact of policies on employment and job quality as being more positive than other enterprise size categories do.

⁶³ Determining the impact of one variable on another is complex given that it is impossible to observe the same individual in two different situations at the same time (Heckman, 2000). A correct analysis would require complex instruments such as the use of control groups and matching procedures between them. Establishing the effect of policies is even more complex since setting up a control group is impossible since the policies or regulations affect all the surveyed individuals equally. For this reason, only an international comparison would make any conclusion possible regarding the impact of the legal and regulatory framework on MSE job quality.

⁶⁴ The study surveyed the perceptions of entrepreneurs for 2000-2001, a period of severe reversal. This section is therefore less a reflection of the entrepreneurs' viewpoint, than an analysis of various shocks in the two years analyzed.

⁶⁵ It should be noted here, as mentioned in footnote 61, that the cited period analyzed was characterized by a severe recession in productivity and a decrease in demand.

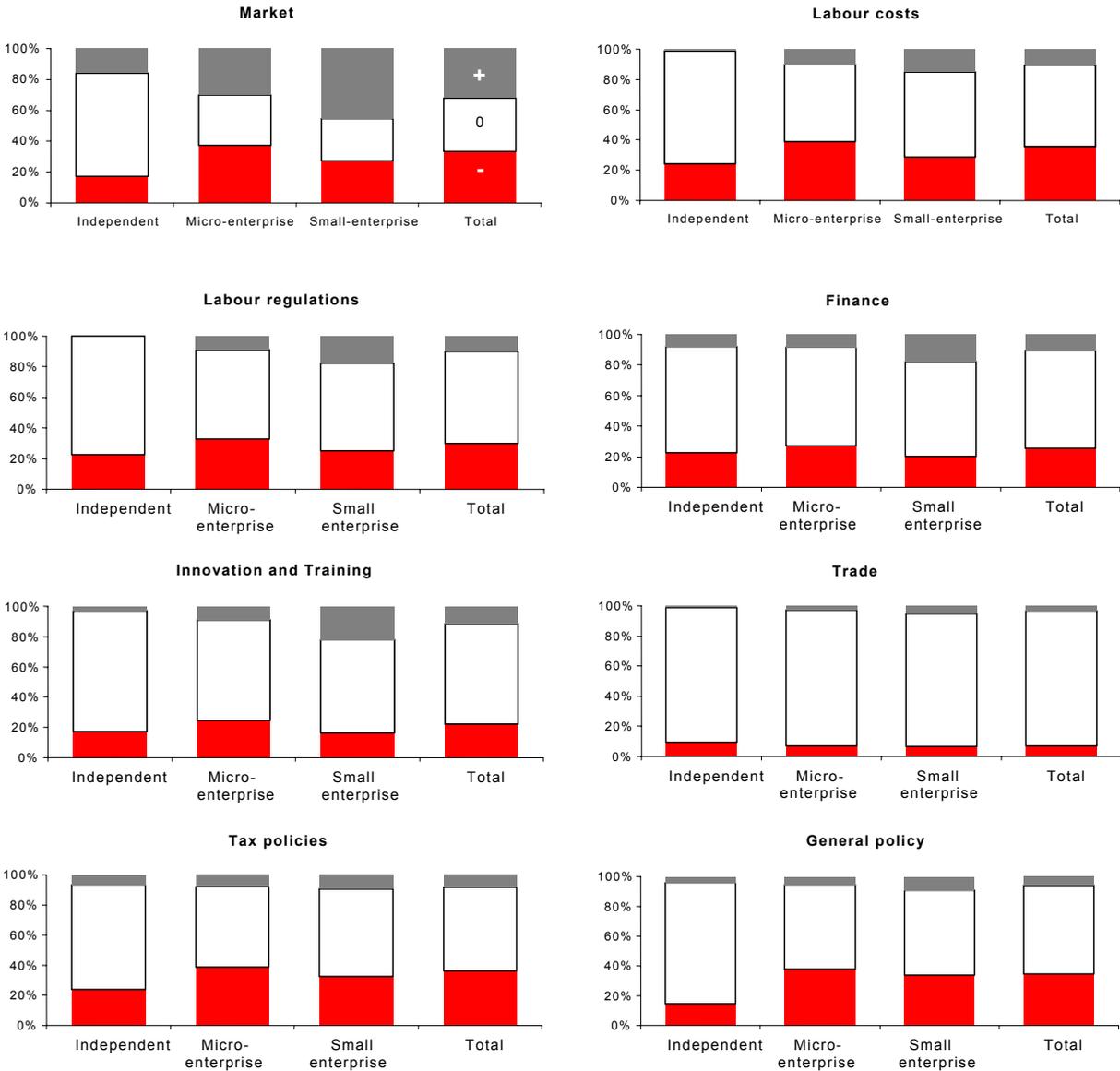
Figure 2.6a: Effects perceived by MSE entrepreneurs on employment volume due to changes in the market and economic policies, 2000-2001



Note: The black, white and grey colours correspond respectively to the negative, null and positive effects.

Source: Author's calculations, using data from the MSE survey (MTPS-ILO, 2001).

Figure 2.6b: Effects perceived by MSE entrepreneurs on job quality due to changes in the market and economic policies, 2000-2001

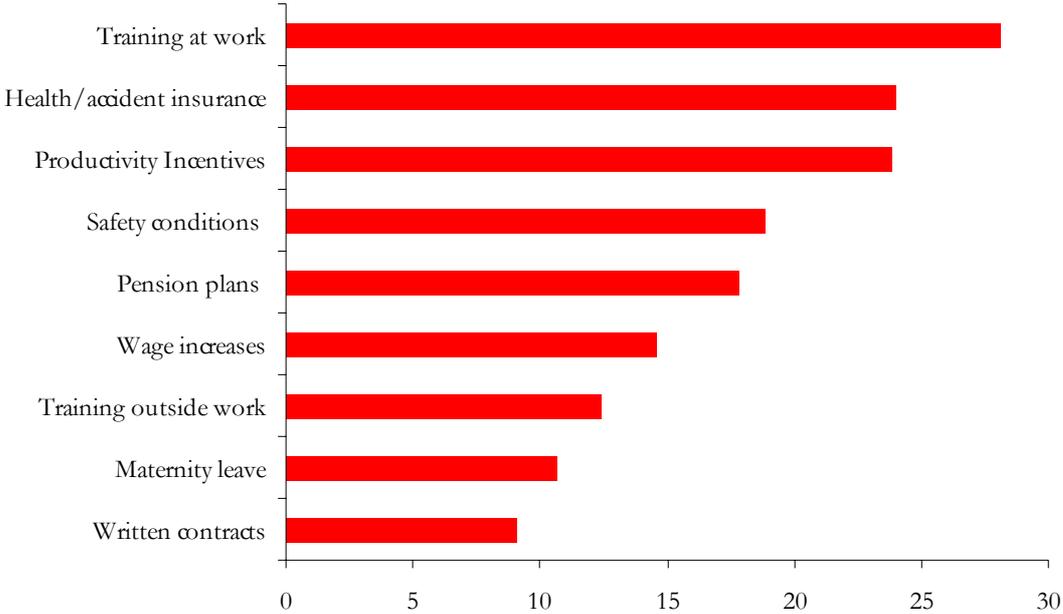


Note: The black, white and grey colours correspond respectively to the negative, null and positive effects.
 Source: Author's calculations, using data from the MSE survey (MTPS-ILO, 2001).

These results indicate no clear pattern of the effect of these policies on MSE employment. However, what does seem to have an effect on MSE job quality is a series of “good labour practices” that MSEs carry out at the workplace.⁶⁶ The 2001 MSE survey gathered information on various labour practices. Many different ones are carried out in MSEs, although in most cases only a few enterprises do so (see Figure 2.7). Only on-the-job training, health or accident insurance, and incentives for productivity are provided by around 25 per cent of the surveyed MSEs.

⁶⁶ Self-employed have been excluded from this analysis of these labour practices, which has been limited to enterprises employing workers.

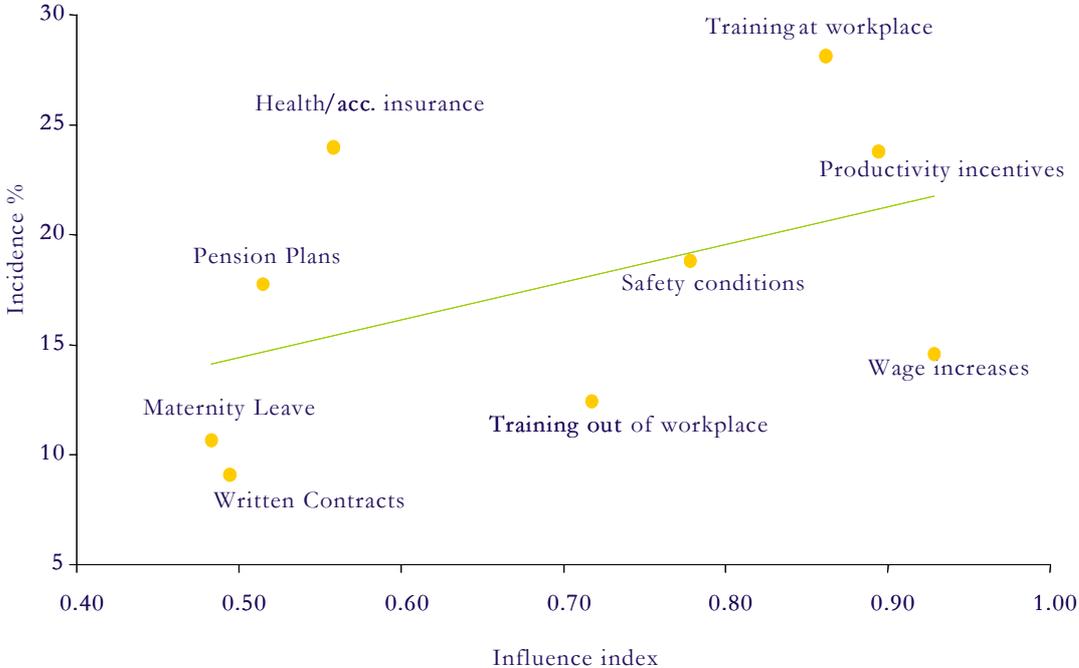
Figure 2.7: Good labour practices in MSEs, 2001 (percentage)



Source: Author’s calculations, using data from the MSE survey (MTPS-ILO, 2001).

Why do these enterprises provide these particular benefits to their workers? Figure 2.8 correlates the percentage of enterprises carrying out these labour practices with the perception they have of the positive influence of these practices on their economic performance.

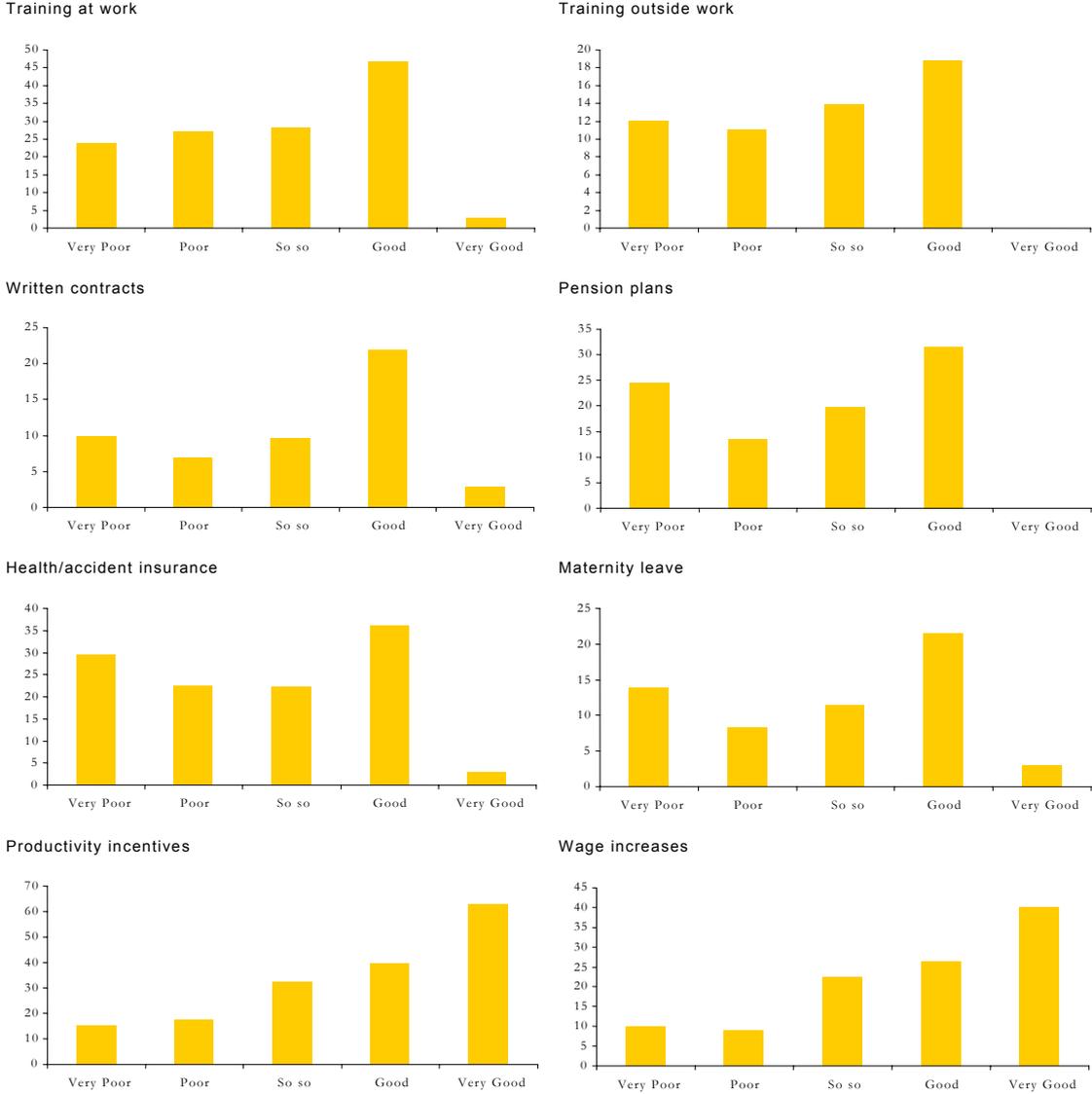
Figure 2.8: Why do MSEs carry out good labour practices?



Note: The influence index takes the value of -1 if the influence is negative, 0 if there is no influence and 1 if the influence is positive. The data here show the average in each category.

Source: Author’s calculations, using data from the MSE survey (MTPS-ILO, 2001).

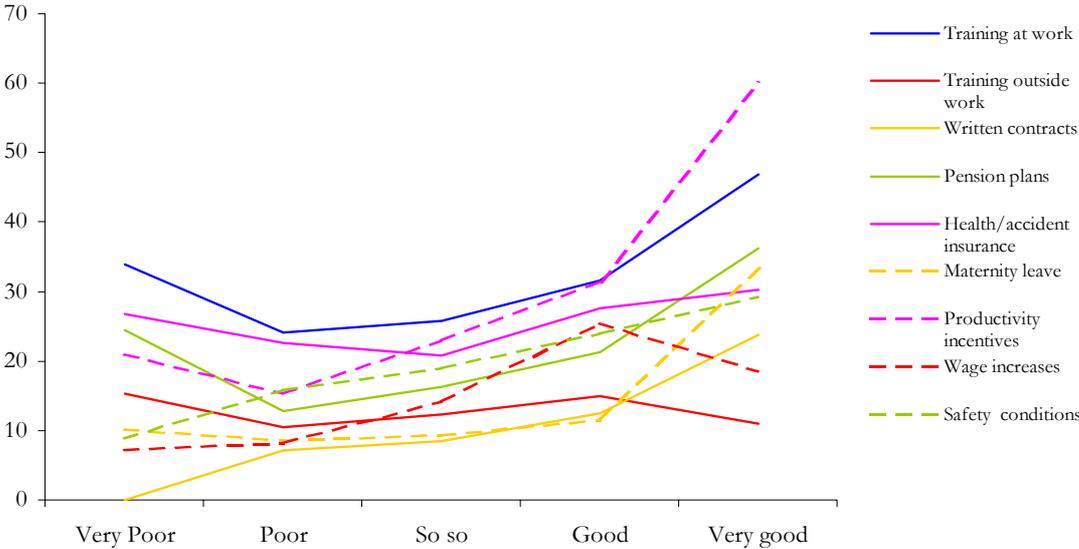
Figure 2.9a: How beneficial for MSEs are good labour practices at the workplace? Perceptions during 2000-2001



Source: Author’s calculations, using data from the MSE survey (MTPS-ILO, 2001).

The preceding evidence may be biased because only enterprises that carry out these practices were asked about their perception of the impact of these benefits. Figures 2.9a and 2.9b establish a comparison with those who do not carry out these practices and with some independent economic performance variables. This comparison shows that all the practices analysed bear some relationship to economic performance in the past few years. This is especially true in regard to productivity incentives and wage increases, probably due to the prevalence of “efficiency wage” policies. More importantly, Figure 2.9b shows that enterprises carrying out these types of good labour practices to a higher degree expect improvement in their performance in the immediate future.

Figure 2.9b: How beneficial for MSEs are good labour practices at the workplace? Expectations for 2002-2003



Source: Author’s calculations, using data from the MSE survey (MTPS-ILO, 2001).

In sum, the provision of good employment conditions at the workplace would be good business for the MSE sector. If so, then why aren’t more enterprises interested in good labour practices?

No direct evidence can answer this question but some assumptions can be made. Good employment conditions make sense in long-term employment relationships, in which employers can train their workers, pay salaries based on efficiency and provide other types of benefits such as pension plans, for example. But the Peruvian labour market is undergoing a period of enormous instability, in which short-term employment predominates. This limits the use of good labour practices.

In the main, this situation has been caused by fluctuations in the market for Peruvian products. However, it can also be considered that the labour reform, by exacerbating labour turnover, may have played an important role here.

Chapter III of this report analyses the role played by MSEs in the labour market, with particular attention to the evolution of job quality over time and its relation to macro-level changes, as well as the institutional and legal reforms that have taken place in the recent past.

III. MSE JOB QUALITY

The discussion concerning MSEs in Peru is quite old. Since the earliest studies in the 1970s, it has been established that the economic role played by MSEs is significant, especially in job creation. In the recent past it has been observed that most of the increase in jobs was due to the growth of this sector, which has become the source of income for a significant proportion of Peruvian families.

Many of the later studies and policy proposals have placed special emphasis on this sector precisely due to “its potential for generating employment”. However, this reasoning is based on several assumptions that should be analysed.

First, it is necessary to discuss whether or not increasing the number of jobs is a valid objective of economic policy that justifies targeted government intervention based on the size of the enterprise. This obviously assumes that the number of jobs is closely associated with the standard of living in society. However, recent evidence has shown that an increase in the number of jobs can be accompanied by a reduction in the average income from these jobs, all of which means that the net effect on the standard of living as a whole is uncertain.

Second, the fact that MSEs are responsible for a large part of the employment in the country does not necessarily mean that they have a “larger capacity” for generating jobs. In order to establish the capacity to generate employment, longitudinal employment information (usually scarce in Peru) is necessary. Similarly, although MSEs have a larger number of workers, it does not necessarily mean that they will respond more (in terms of job creation) than larger enterprises to the application of policies or programmes.

For these reasons, this chapter analyses the role played by MSEs in the labour market, with particular attention to the quality of employment over time, in a period of major institutional and legal reforms, as well as changes at the macro level.

1. Definitions

In Peru, there are diverse definitions for micro and small enterprises. The last Small and Micro-Enterprise Law defines a micro-enterprise as one with up to 10 workers and a small enterprise as one with up to 40 workers. However, various ministries and agencies of the Government use different definitions often based on economic performance criteria.⁶⁷

Although not always the case, most of the existing definitions are based on the number of workers that the economic unit employs. It is assumed that there are significant differences in enterprise variables – especially in terms of productivity – according to enterprise size. The key question is how to determine the cut-off points that separate the different size categories of enterprises. These cut-off points have usually been established arbitrarily from studies or analyses of the particularities of enterprises with different numbers of workers.

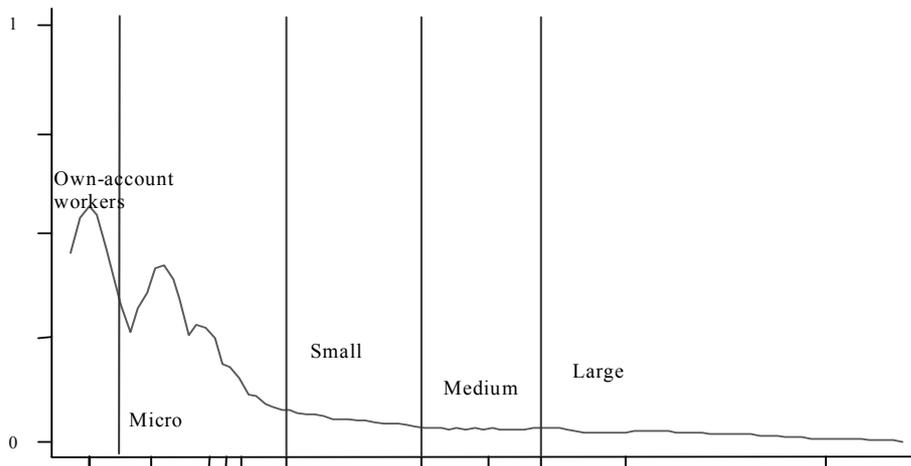
⁶⁷ For example, the Small and Micro-enterprise Law indicates that in regard to Municipal licenses, enterprise size categories are defined using a criterium not only based on the number of workers but also on annual sales (up to 100 UITs for micro-enterprises and up to 200 UITs for small enterprises). Likewise, the Tax Administration Superintendency (SUNAT) considers small economic units as those with annual sales of less than 80 UITs.

In the present report, enterprises are defined by size as follows:

- Micro enterprise, an economic unit with up to 10 workers including the owner. This category includes one-person enterprises (own-account workers, who work alone in the enterprise).
- Small enterprise, an economic unit with 10 to 50 workers.
- Medium enterprise, an economic unit with 50 to 199 workers.
- Large enterprise, an economic unit with 200 or more workers.

To translate these definitions into empirical analysis, this study uses two data series from the Peruvian Household Surveys (ENAHO): the Metropolitan Lima series (1990-1995) and the National series (1996-2000).⁶⁸ Figure 3.1a shows the position of these cut-off points in the empirical distribution (kernel) of the number of workers, according to the declarations made by workers in these household surveys. It is observed that from an empirical point of view, the Peruvian labour market is comprised of own-account workers and micro-enterprises with a small proportion of workers in the remaining enterprise size categories.

Figure 3.1a: Urban Peru – Log number of workers in enterprises (kernel density), 2000

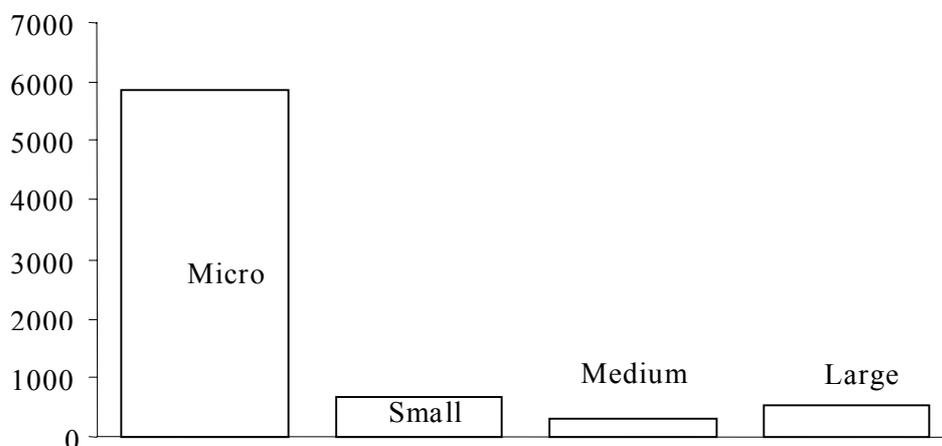


Source: Author's calculations, using ENAHO 2000 data.

⁶⁸ In the ENAHO survey, the question referring to the size of the economic unit in which the individual works refers to the enterprise, not to the establishment or another economic unit. In the tables and figures presented here, values for 1997 and 1998 for medium and large enterprises should be considered with caution. For those years, the survey dealt only with categories of up to 100 and from 100 to 500 workers, and the shares corresponding to the size classes [50-199] and 200 and more have been estimated based on consecutive years.

The same conclusion can be reached from Figure 3.1b, which presents employment grouped by enterprise size classes.⁶⁹

Figure 3.1b: Urban Peru – Employment by enterprise size, 2000



Source: Author's calculations, using ENAHO 2000 data.

2. MSE employment structure⁷⁰

If MSEs are responsible for a large proportion of existing employment, how could an analysis of MSE employment differ from the standard analysis of the labour market in general? This and the following chapter show that what is occurring in MSE employment explains many of the phenomena observed in the labour market as a whole. This indicates that an employment analysis based on the size of the enterprise is not only relevant for MSEs but also for what happens in the entire labour market.

2.1 *MSE participation in the economy and in the labour market*

The first question in studies related to this matter refers to the economic importance of the MSE sector. The empirical answers have been of two types: its importance in production and its importance in employment.

⁶⁹ In the distribution of enterprises by size, declared by those interviewed in the household survey, a small distortion arises because respondents gave approximations, in round numbers, when they did not know the exact size of the enterprise in which they worked. This distortion naturally increases when the enterprise is larger since it is more difficult to know the real size in these cases. For the classes used in this study, [1,9]; [10,49]; [50,199]; [200, ...], the distortion tends to subtract some observations from each range in the upper limits since the upper limits are not rounded off numbers, whereas the lower limits are. In this way, the first range [1,9] is underestimated. When analyzing a variable according to these enterprise size classes (based on the reported number of workers) the characteristics of respondents that are close to the upper limit of a range are wrongly assigned to the next category (because when they round off the number of workers at their workplace they are placed in a larger enterprise category). An absolute measure of this error is the measurement of the size of enterprises. Assuming that the distribution of enterprise sizes is a regular and smooth one, when adding up the number of workers who declared a multiple of 5 in the 10 to 9900 range for the size of their enterprise, this sum should not vary much from one-fifth (0.2) of the sum of all the workers who said they worked in enterprises within the 10 to 9900 range. However, it represents 0.859. This shows that there is a considerable potential distortion, which increases in direct proportion to how narrow the range is for determining the enterprise size. In the [1,9] range, the strict decrease in the frequency suggests that there is no error in measurement.

⁷⁰ In the following sections, the figures referring to 1999 are preliminary only, as they were among the last databases to which the author of this report had access.

Various studies have tried to estimate the contribution of MSEs to national production and therefore their impact on the economy. This task is quite complex because statistics concerning national accounts in Peru do not separate the information by enterprise size. However, some studies using indirect methods have arrived at an approximation that makes it possible to infer the real magnitude of this sector. For example, Villarán (1998), using a combination of censuses and surveys, estimated that the MSE contribution to the GNP was approximately 42 per cent. This coincides with the INEI (1995), based on estimations from the 1993 Economic Census, estimating that the MSE contribution to the GNP was 43 per cent. This is the only information available in Peru.

Figures on employment contribution of enterprises according to their size are more reliable and frequent than value added figures, due to periodic household surveys in Peru.⁷¹ As Table 3.1 shows, there are around 17 million people of working age in urban Peru, of which 11.9 million are economically active (approximately 68 per cent). Of these 11.9 million, 6,410,000 are unemployed and 11.2 million are employed. Of those employed, 832,000 are employed in the public sector. In regard to private workers, around 41 per cent are own-account workers and a similar percentage work in micro-enterprises. Small enterprises are responsible for 7 per cent of private employment in Peru.

An interesting fact arises from comparing the two types of data presented. If MSEs produce 42 per cent of GNP and represent 70 per cent of employment, this implies that workers in medium and large enterprises are almost four times as productive as those in MSEs.

This has several implications. One is that employment growth in this sector as well as its significant participation in total employment does not imply a similarly large (or increasing) contribution to labour income.

Table 3.1: Labour market structure (thousands)

| | Metropolitan Lima | | | Peru (urban and rural) |
|--------------------------------|-------------------|-------|-------|------------------------|
| | 1990 | 1995 | 2000 | 2000 |
| Working age population | 4,160 | 4,908 | 5,587 | 17,313 |
| Economically active population | 2,480 | 3,063 | 3,543 | 11,912 |
| Employed | 2,269 | 2,846 | 3,265 | 11,272 |
| Public Sector | 338 | 285 | 254 | 832 |
| Private Sector | 1,931 | 2,561 | 3,011 | 10,439 |
| Microenterprises | 1,326 | 1,796 | 2,155 | 8,694 |
| Own-account workers | 700 | 870 | 1,122 | 4,353 |
| Other micro enterprises | 626 | 926 | 1,033 | 4,341 |
| Small enterprises | 276 | 319 | 331 | 778 |
| Medium enterprises | 157 | 241 | 184 | 329 |
| Large enterprises | 172 | 205 | 341 | 635 |
| Unemployed | 211 | 217 | 278 | 641 |
| Inactive | 1,679 | 1,846 | 2,044 | 5,401 |

Source: Author's calculations, using ENAHO data for 1990, 1995, and 2000.

⁷¹ Labour force surveys have been conducted since the 1970s.

When private sector workers are classified according to worker's sex and enterprise size, it is found that 78 per cent of the women working in the private sector work in micro enterprises. This percentage has remained high throughout the decade.

Table 3.2: Lima – Private sector employment, according to worker's sex and size of enterprise, 1991, 1995, 2000 (thousands and %)

| | 1991 | | | 1995 | | | 2000 | | |
|--------|-------|-------|------|-------|-------|------|-------|-------|------|
| | Men | Women | F/M | Men | Women | F/M | Men | Women | F/M |
| Micro | 760 | 615 | 0.81 | 989 | 807 | 0.82 | 1,146 | 1,009 | 0.88 |
| Small | 162 | 84 | 0.52 | 208 | 110 | 0.53 | 204 | 126 | 0.62 |
| Medium | 143 | 45 | 0.31 | 182 | 58 | 0.32 | 131 | 53 | 0.40 |
| Large | 159 | 45 | 0.27 | 146 | 59 | 0.40 | 236 | 105 | 0.44 |
| Total | 1,224 | 787 | 0.64 | 1,526 | 1,035 | 0.68 | 1,717 | 1,293 | 0.75 |

Note: Calculations include private sector workers (including private paid workers, own-account workers, and unpaid family workers).

Source: Author's calculations, using ENAHO data for 1991, 1995 and 2000.

The capital city, Lima, accounts for 28 per cent of overall employment and 47 per cent of urban employment. The second largest city in terms of employment is Arequipa, with less than 10 per cent of the amount of employment in Lima. This is because rural employment in the provinces is more significant than in Lima. In any case, these figures show how highly centralized employment is. It is interesting to note that own-account workers' and micro enterprises' contribution to employment is more important outside of Lima than in Lima.

Table 3.3: Private employment composition in major cities, according to enterprise size, 2000 (thousands)

| | Micro | Small | Medium | Large | Total |
|-------------------|---------|-------|--------|-------|---------|
| Urban Peru | 4 954.0 | 592.1 | 303.1 | 585.4 | 6 434.6 |
| | 77.0 | 9.2 | 4.7 | 9.1 | 100.0 |
| Metropolitan Lima | 2 155.0 | 330.6 | 183.7 | 340.7 | 3 010.0 |
| % | 71.6 | 11.0 | 6.1 | 11.3 | 100.0 |
| Other urban areas | 2 799.0 | 261.5 | 119.5 | 244.6 | 3 424.6 |
| % | 81.7 | 7.6 | 3.5 | 7.1 | 100.0 |
| Arequipa | 212.6 | 31.1 | 9.2 | 19.8 | 272.7 |
| % | 78.0 | 11.4 | 3.4 | 7.2 | 100.0 |
| Huancayo | 94.6 | 7.5 | 2.0 | 4.7 | 108.7 |
| % | 87.0 | 6.9 | 1.8 | 4.3 | 100.0 |
| Iquitos | 142.2 | 19.2 | 6.3 | 5.0 | 172.8 |
| % | 82.3 | 11.1 | 3.7 | 2.9 | 100.0 |
| Piura | 98.6 | 8.9 | 5.0 | 9.0 | 121.5 |
| % | 81.2 | 7.4 | 4.1 | 7.4 | 100.0 |
| Trujillo | 180.9 | 18.1 | 8.0 | 16.9 | 223.9 |
| % | 80.8 | 8.1 | 3.6 | 7.5 | 100.0 |
| Cusco | 90.7 | 8.4 | 4.4 | 7.6 | 111.1 |
| % | 81.7 | 7.6 | 4.0 | 6.8 | 100.0 |
| Others | 1 979.2 | 168.3 | 84.5 | 181.8 | 2 413.8 |
| % | 82.0 | 7.0 | 3.5 | 7.5 | 100.0 |

Note: Calculations include private sector workers (including private paid workers, own-account workers, and unpaid family workers).

Source: Author's calculations, using ENAHO data for 1991, 1995 and 2000.

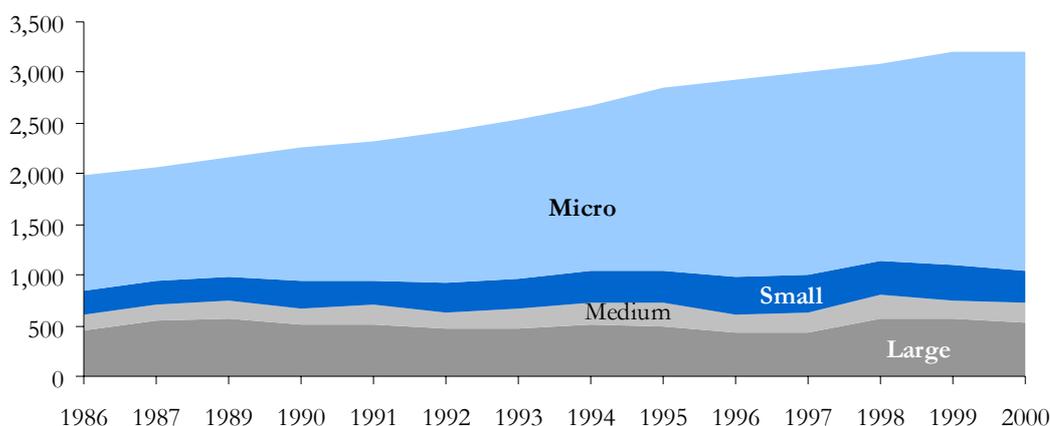
The large and medium enterprises have a very low share of private sector employment, especially outside of Lima. The major economic activity in many cities in the provinces is commerce, which generally generates employment through very small enterprises.⁷²

2.2 Evolution of MSE employment in the 1990s

The differences in employment levels among enterprises of different size have become more obvious during the 1990s, as Figure 3.3 shows. Whereas micro-enterprise employment has increased, employment levels in larger enterprises have remained almost unchanged in absolute terms. In consequence, micro enterprise share in employment as a whole has increased from 58 per cent in 1990 to 67 per cent in 2000. In contrast, employment contribution of large enterprises dropped from 22 per cent in 1990 to 17 per cent in 2000.⁷³

The question is whether this growth in MSE employment has been good for the society or not. Generally speaking, if caused by an increase in the demand for labour in the MSE sector, this growth is positive. On the other hand, if it represents a refuge for people who cannot otherwise find work, it is an unsought result. In other words, the benefit of this type of growth depends on whether or not it is backed by supply or demand factors. Several attempts using diverse methods have been made in Peru to answer this question.⁷⁴

Figure 3.2: Lima – Evolution of employment by enterprise size, 1986-2000



Source: Author's calculations, using ENAHO data for 1986 to 2000.

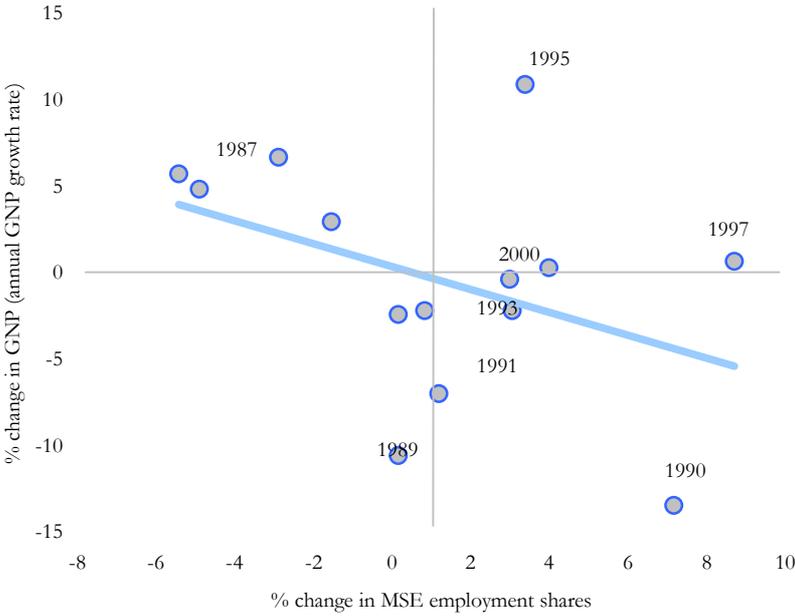
A usual way to answer this question is by analyzing the relationship between employment evolution in the MSE sector and what happens in the market for goods and services. That is, to correlate good and bad economic years with increases or decreases in MSE employment. To control for the inertial growth of employment in the MSE sector, this exercise is done by correlating GNP growth with variations in MSE employment shares, as shown in Figure 3.4.

⁷² This observation was made in several interviews with key informants made during the course of this report.

⁷³ These figures include public employment and therefore differ from data presented in the previous section. Tables A6.1 and A6.2 in Annex 6 show changes in employment by enterprise size as indexes and percentages.

⁷⁴ Yamada (1994), for example, found that approximately 50 per cent of those working in the informal economic sector are working there voluntarily.

Figure 3.3: Correlation between GNP variations and MSE employment shares, 1986-2000



Source: Author’s calculations, using ENAHO and BCRP data.

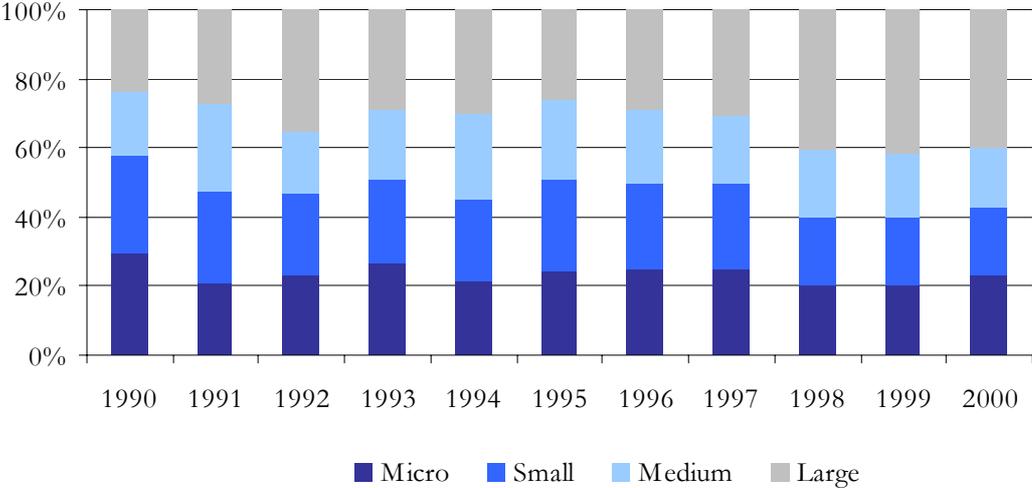
It was found that with the exception of 1995 there is a negative correlation between the GNP variation and the MSE contribution to total employment. MSE employment share grows when the GNP falls and vice versa. The only years in which MSE employment growth is directly related to production growth are those in which growth was considerably more than the average. This would seem to support the idea that MSE employment growth during the 1990s was an emergency strategy.

A second method of answering this question is to analyse another variable resulting from the labour market: labour income. If employment growth in this sector had derived from increases in demand, then wages would have increased or have remained unchanged. However, if the growth in employment had been due to an increase in labour supply, wages would not have changed or would have decreased.

The information obtained is revealing. Figure 3.5 shows the distribution of the total labour income by enterprise size. Micro enterprises are responsible for 21 per cent of the total wage bill and this percentage is a little higher for the small enterprises (around 25 per cent). The large enterprises increased their share during the 1990s, reaching almost 40 per cent in 1999.⁷⁵

⁷⁵ Note that this is only an approximation of how income is distributed among workers in different enterprises. Household surveys also have certain limitations for measuring income, such as the under-declaration by those who earn more. Nevertheless, the correction of this problem would not significantly affect the conclusions of this report.

Figure 3.4: Metropolitan Lima – Distribution of labour income for private paid workers, 1990-2000



Note: For a definition of private paid workers, see note 25.
 Source: Author’s calculations, using ENAHO data for 1990 to 2000.

Comparing this information with that of employment participation, the small and micro-enterprise share in total remuneration is approximately half its employment contribution, whereas the share of the labour income received by those working in medium and large enterprises is double that of their participation in employment. Moreover, based on the evolution of MSE employment and income contribution, it can be concluded that the labour income generated by MSEs has diminished in *per capita* terms and the increase of employment in MSEs has probably occurred at the cost of lower average MSE productivity.

A third method of analyzing this issue is to determine what type of economic units have grown the most among the highly heterogeneous MSE sector. One way of differentiating MSEs is by separating own-account workers – who may work with unpaid family workers – from micro and small economic units that hire paid workers. A unit with paid workers would indicate that there is some demand in the market that justifies hiring them. Two important findings emerge. First, there are more own-account workers who work with unpaid workers, usually unpaid family members, than MSEs employing paid workers. Second, while MSEs with paid workers have grown steadily throughout the decade, family enterprises have had a more erratic evolution. There seems to be a long-term trend that would explain the growing number of MSEs with paid workers while MSEs without paid workers respond more to cyclical fluctuations.

Figure 3.5: Metropolitan Lima – Enterprises with at least one paid worker and enterprises with only non-paid workers (thousands)⁷⁶



Source: Author’s calculations, using ENAHO data for 1990 to 2000.

All the above findings point towards the conclusion that the increase in jobs during the 1990s has taken place mainly in micro enterprises but has been accompanied by a decrease in MSE income. The question arises whether policy proposals to support MSEs based on their capacity for generating employment are really appropriate. Will these policies be able to generate additional welfare for workers?

2.3 MSE employment composition

MSE employment can also be analysed by employment category. How many employers are there? How many paid workers? In this section, own-account workers have been included, and it is interesting to consider them as a separate category.

Table 3.4: Lima – Employment composition within MSEs, according to sex

| | 1990 | | 2000 | |
|-----------------------|------|-----------|------|-----------|
| | % | Women/Men | % | Women/Men |
| Own-account workers | 43.6 | 0.87 | 45.2 | 0.85 |
| Employer | 6.8 | 0.16 | 6.3 | 0.34 |
| Paid workers | 42.6 | 0.67 | 41.3 | 0.81 |
| Unpaid family workers | 7.0 | 1.93 | 7.4 | 1.82 |

Note: This table considers only private sector workers.
 Source: Author’s calculations, using ENAHO data for 1990 and 2000.

Table 3.4 shows that the MSE sector comprises 45 per cent own-account workers, 41 per cent paid workers, 6 per cent employers and 7 per cent unpaid family workers. In terms of labour income, the distribution differs, as unpaid family workers do not receive any income. Employers receive 15 per cent of the total labour income generated in MSEs, while the income received by own-account workers is less than their share in employment.

⁷⁶ Conventionally, household surveys define employers as individuals who pay the people they work with. Those entrepreneurs who work alone or with people they do not pay (unpaid family workers) are known as “own-account workers”. For Figure 3.5, own-account workers who work with unpaid workers have been separated from those who work strictly alone.

With regard to gender composition, the results found are as expected. More women than men are among the unpaid family members and there are fewer women than men in the other categories, especially as employers or managers. However, the ratio of women to men as MSE employers has increased during the past decade as a result of the increases in female participation rates mentioned in Chapter II.

3. MSE job quality

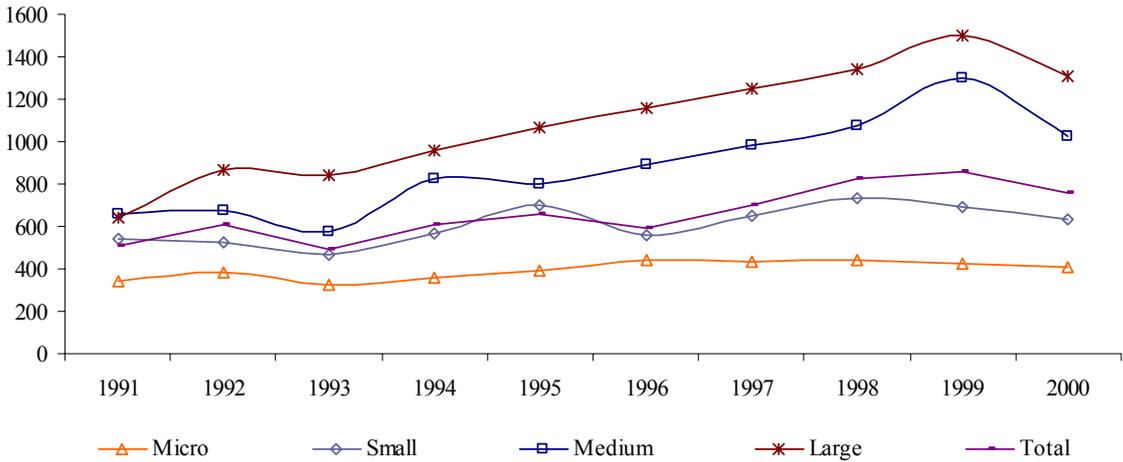
The fact that the MSE sector employs a large number of workers does not necessarily mean that it is the best route for generating employment in Peru. The main problem is that the quality of jobs in MSEs is under debate. Job quality refers to attributes difficult to measure with the usual labour statistics collected. It covers different elements related to the workplace (safety, cleanliness, low noise, etc.) and the worker (wages, social protection, promotion opportunities, etc.). Most of the existing statistics in Peru do not cover the characteristics of the workplace, making it difficult to determine if a job is of good quality or not. Because of the numerous dimensions involved, the best that can be done is to determine whether or not one job has more attributes of quality than another. In other words, comparisons will always be relative from this point of view.

Keeping these considerations in mind, the following section analyses various dimensions of job quality in the Peruvian labour market. For each dimension, an attempt is made to determine the characteristics by enterprise size.

3.1 Remuneration and workday

Figure 3.6 shows the average incomes of paid workers in enterprises of different sizes, including income of own-account workers.

Figure 3.6: Metropolitan Lima – Evolution of real income of private paid workers by enterprise size, 1991-2000 (1994 PEN)



Note: 1996 and 1997 figures are estimates, as the survey for these years did not distinguish clearly medium and large enterprises. Calculations include only private paid workers. Please see note 25 for a definition.
 Source: Author’s calculations, using ENAHO data for 1991 to 2000.

As mentioned in Chapter I, labour income has remained practically stationary during the decade. Nevertheless, there are significant differences by enterprise size since only incomes of workers in medium and large enterprises have significantly increased. This is even

more striking if income per working hour is considered, since changes have also occurred in the average number of hours worked weekly.

Table 3.5: Metropolitan Lima – Evolution of real income, hours worked, and hourly wage

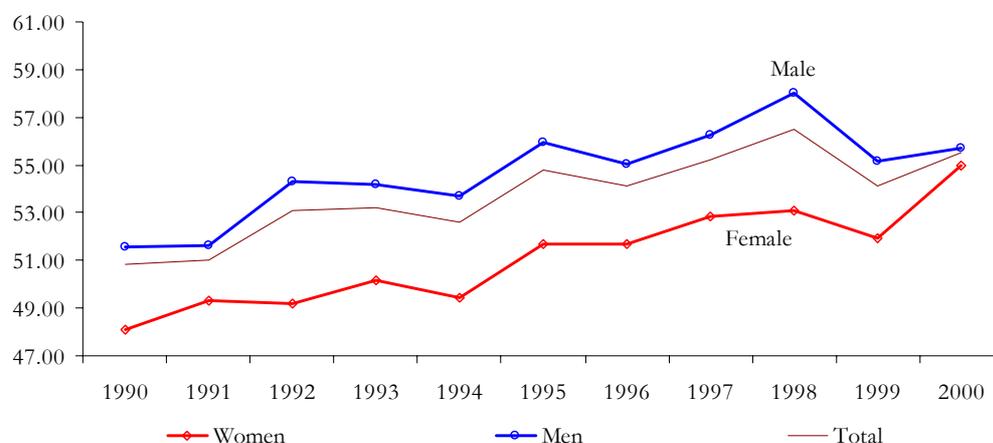
| | 1991 | 1995 | 2000 |
|---|-------|-------|-------|
| Monthly real income (constant 1994 dollars) | | | |
| Micro | 135.3 | 176.5 | 193.7 |
| Small | 242.6 | 313.3 | 280.9 |
| Medium | 294.2 | 357.5 | 457.2 |
| Large | 286.5 | 475.6 | 585.6 |
| Weekly hours worked | | | |
| Micro | 51 | 56.6 | 58.8 |
| Small | 49.5 | 53.3 | 52.9 |
| Medium | 52.3 | 54 | 55.7 |
| Large | 51.2 | 54 | 53.5 |
| Hourly wage (constant 1994 dollars) | | | |
| Micro | 0.66 | 0.78 | 0.82 |
| Small | 1.23 | 1.47 | 1.33 |
| Medium | 1.41 | 1.66 | 2.05 |
| Large | 1.40 | 2.20 | 2.74 |

Note: This table only includes full-time private paid workers.

Source: Author's calculations, using ENAHO data for 1991, 1995 and 2000.

As MSEs created more jobs during the decade than larger enterprises, it can be concluded that jobs were created at the cost of low average productivity in this sector. Moreover, the jobs existing now are often of a lower quality than the previous ones, at least from the point of view of income. Figure 3.7 and Table 3.5 show that the workday for full-time workers has also increased considerably (around 10 per cent) for both men and women, especially in micro enterprises.

Figure 3.7: Metropolitan Lima – Weekly hours worked by full-time private paid workers, according to sex, 1990-2000



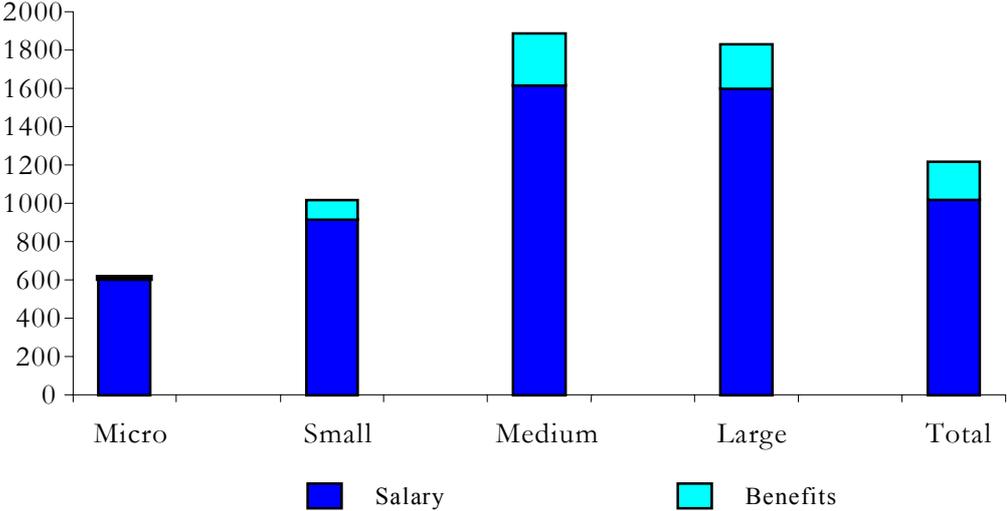
Note: Calculations include only full-time private paid workers.

Source: Author's calculations, using ENAHO data for 1990 to 2000.

3.2 Fringe benefits

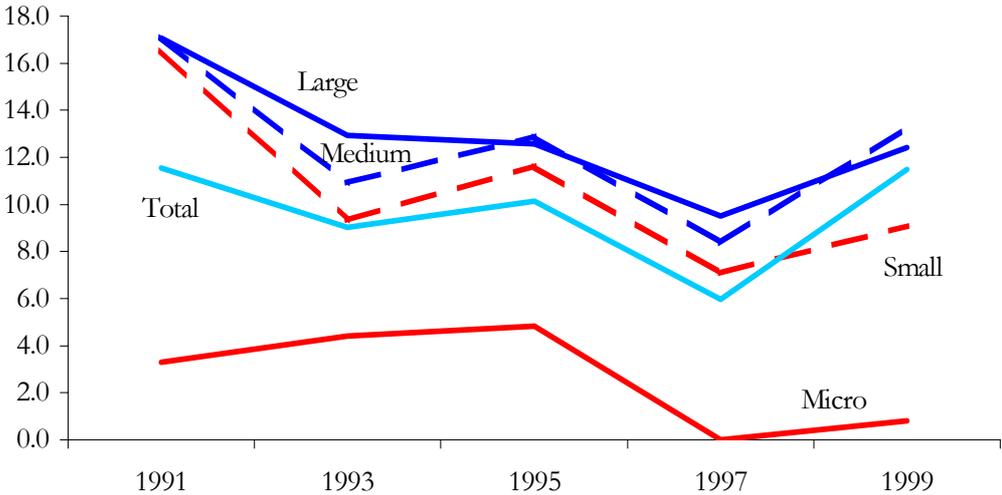
The reduction in MSE worker income has also been accompanied by a lower provision of work benefits (Figures 3.8a and 3.8b). Benefits provided are much lower in MSEs than in larger enterprises (Figure 3.8a). In addition, during the decade the share of these benefits in total worker income has decreased (Figure 3.8b).

Figure 3.8a: Metropolitan Lima – Labour income components (salary and benefits) 1999



Note: Calculations include private paid workers only. Please refer to note 25 for a definition.
 Source: Author’s calculations, using ENAHO data for 1999.

Figure 3.8b: Metropolitan Lima – Share of non-wage benefits in labour income, 1991-1999 (%)



Note: Calculations are for private paid workers only. For a definition, please see note 25 above.
 Source: Author’s calculations, using ENAHO data for 1991 to 1999.

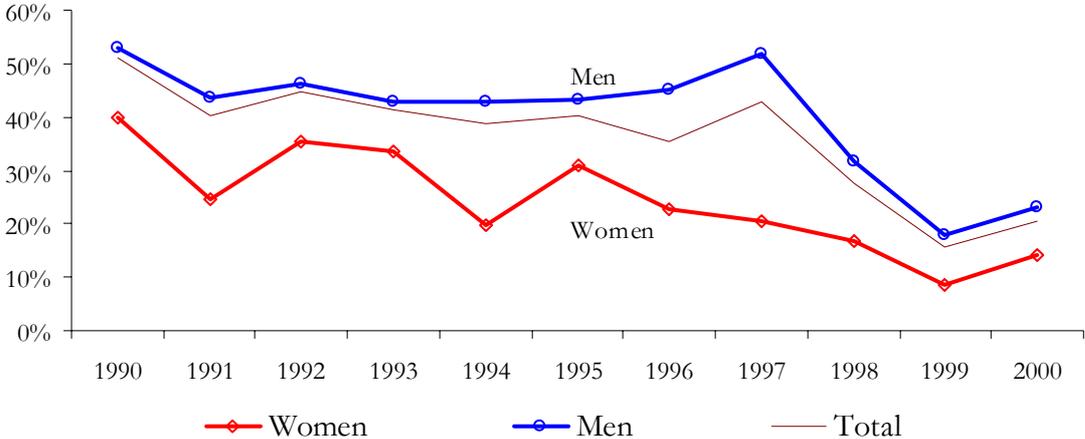
3.3 Collective rights: Freedom of association

As previously mentioned, one of the main effects of labour reform in Peru is the dramatic fall in union affiliation.⁷⁷ In fact, Peru has gone from being one of the countries with the highest unionisation rates at the beginning of the decade to being the one with the least. This clearly sets a central question. How much are unions, as institutions in the labour market, really necessary? It is very likely that in Peru the absence of these labour market institutions has allowed employment to become more precarious throughout the decade.

This theme has usually been left aside when dealing with MSEs not because of lack of relevance but because, due to the conditions set by law, small-scale economic units have always been excluded from the possibility of forming unions. Even now, only enterprises with more than 20 workers can have unions. The only options for micro enterprise workers are either to join a branch union or elect a delegate to represent them before their employer. Therefore, in practice, small economic units have always had lower union affiliation rates than larger ones (Figure 3.9b).

Nonetheless, the most important effects of the drop in union affiliation have been in the largest enterprises. The affiliation rate in these enterprises fell from almost 70 per cent in 1991 to less than 30 per cent in 1999. During this period, affiliation rates in medium and small enterprises fell from 40 per cent to less than 10 per cent and from 10 per cent to less than 3 per cent respectively. Union affiliations in micro enterprises disappeared almost completely between 1991 and 1993.

Figure 3.9a: Metropolitan Lima – Union affiliation rates of private paid workers by sex, 1990-2000

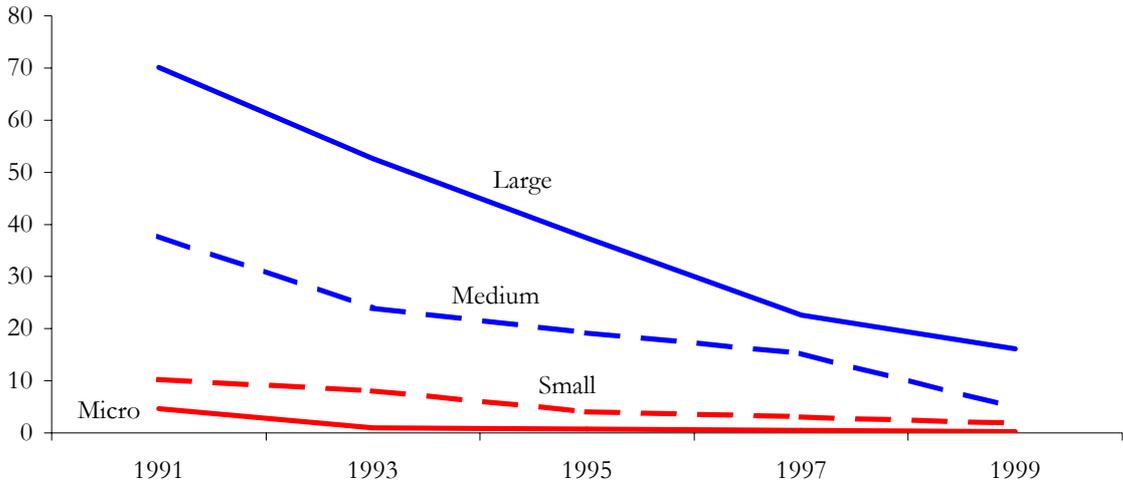


Note: Calculations cover only private paid workers who could belong to a union if they so desired (enterprises of 20 or more workers).

Source: Author’s calculations, using ENAHO data for 1990 to 2000.

⁷⁷ Union affiliation is a controversial subject. Some studies point out its negative effect on the productivity and income-generating capacity of enterprises. Others argue that on the contrary evidence shows that the presence of union leads to increased opportunities for enterprises.

Figure 3.9b: Metropolitan Lima – Union affiliation rates by enterprise size, 1991-1999



Note: Calculations cover only private paid workers who could belong to a union if they so desired (enterprises of 20 or more workers).
 Source: Author’s calculations, using ENAHO data for 1990 to 2000.

3.4 Work contract and employment duration

The other negotiable element in the labour market is the type of labour relationship under which the worker is employed. As previously mentioned, in the 1990s significant changes were implemented in how workers were contracted. The main purpose was to create flexible modalities for the use of labour in formal employment. However, these changes, far from creating more formal employment (permanent or through the new flexible modalities) have instead led to an increase in employment without work contracts.

This can be seen in Table 3.6, where the contract situation is classified according to the worker’s sex and the enterprise size. Women are more likely not to have written work contracts, in other words, to work outside the bounds of labour regulations.

Table 3.6: Metropolitan Lima – Composition of employment by type of contract, sex and enterprise size (%)

| | 1993 | 1995 | 1997 | 1999 |
|--------------------------|-------|-------|-------|-------|
| Sex | | | | |
| Men | 100.0 | 100.0 | 100.0 | 100.0 |
| Permanent | 40.1 | 27.6 | 27.6 | 24.2 |
| Flexible | 25.0 | 36.1 | 29.1 | 28.6 |
| Without written contract | 34.9 | 36.4 | 43.3 | 47.1 |
| Women | 100.0 | 100.0 | 100.0 | 100.0 |
| Permanent | 41.5 | 33.0 | 27.0 | 27.0 |
| Flexible | 19.6 | 27.2 | 30.8 | 30.1 |
| Without written contract | 38.9 | 39.8 | 42.1 | 42.9 |
| Enterprise Size | | | | |
| Micro | 100.0 | 100.0 | 100.0 | 100.0 |
| Permanent | 25.8 | 17.6 | 15.0 | 11.3 |
| Flexible | 24.0 | 23.5 | 15.8 | 13.5 |
| Without written contract | 50.1 | 58.9 | 69.2 | 75.2 |
| Small | 100.0 | 100.0 | 100.0 | 100.0 |
| Permanent | 48.0 | 31.5 | 31.5 | 28.3 |
| Flexible | 21.7 | 32.7 | 32.7 | 30.9 |
| Without written contract | 30.3 | 35.9 | 35.9 | 40.8 |
| Medium | 100.0 | 100.0 | 100.0 | 100.0 |
| Permanent | 43.9 | 37.1 | 37.1 | 38.9 |
| Flexible | 32.0 | 45.5 | 45.5 | 49.0 |
| Without written contract | 24.1 | 17.4 | 17.4 | 12.1 |
| Large | 100.0 | 100.0 | 100.0 | 100.0 |
| Permanent | 58.0 | 45.1 | 45.1 | 40.1 |
| Flexible | 25.1 | 45.1 | 45.1 | 45.3 |
| Without written contract | 16.9 | 9.8 | 9.8 | 14.6 |

Source: Author's calculations, using ENAHO data for 1993, 1995, 1997, and 1999.

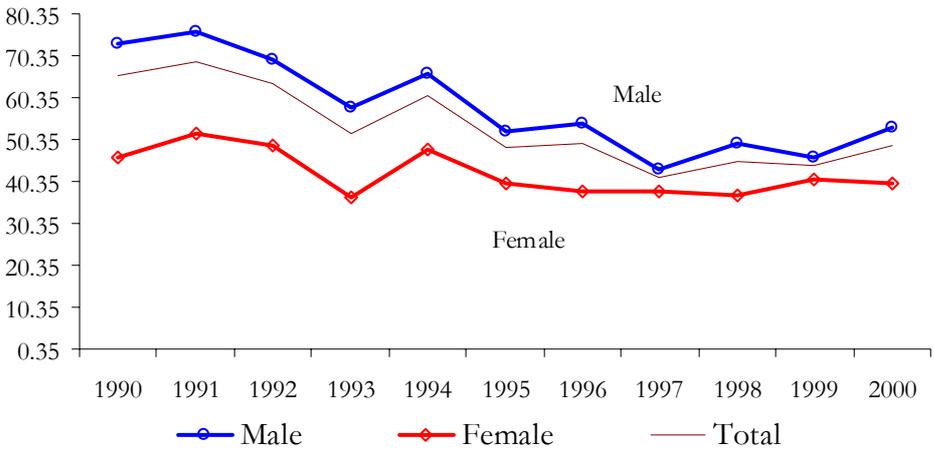
Regarding contract modalities in enterprises of different sizes, 75 per cent of MSE workers have no work contracts. They comprise 67 per cent of the total number of workers without contracts. Moreover, the proportion of workers “without written contracts” has increased in MSEs, while there has been almost no change in the largest enterprises and the share of workers without work contracts has even decreased in medium enterprises.

The reduction in the number of permanent workers and the increase in the number of workers without contracts have had effects on employment tenure.⁷⁸ As Figures 3.11a and 3.11b show, the average duration of employment among private paid workers decreased considerably, especially between 1991 and 1993, when the most significant part of the labour reform process was implemented (absolute job stability was eliminated in 1991).

Employment duration for women is usually less than that for men although the difference decreased considerably after the reform. As expected, the most important reduction in employment duration has taken place in the largest enterprises (those previously offering the most permanent employment).

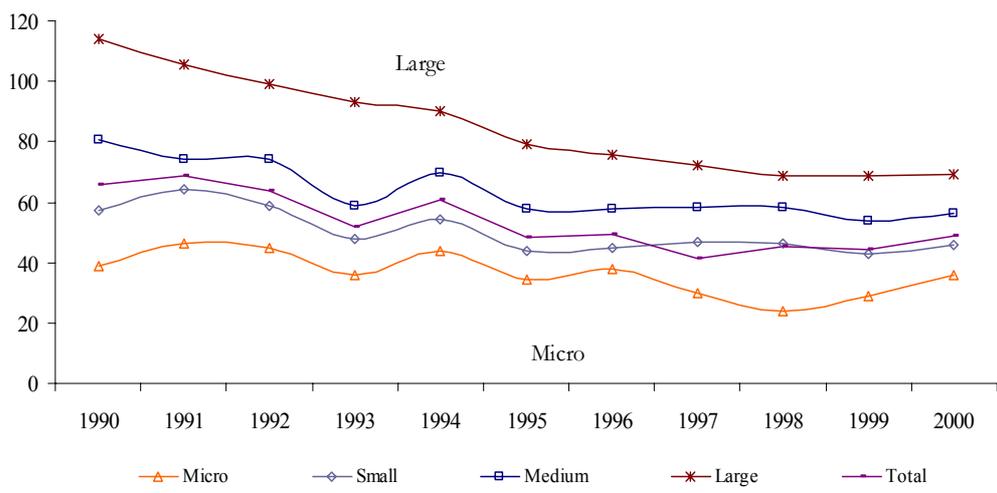
⁷⁸ Employment duration is approximated here by using household surveys data on duration up to the date of the interview. A complete estimation of employment duration would include estimating survival probabilities. For more detailed information on Peru, see Chacaltana (2000).

Figure 3.10a: Metropolitan Lima – Employment tenure (months) by sex, 1990-2000



Note: Calculations are for private paid workers only. See note 25 for a definition.
 Source: Author’s calculations, using ENAHO data for 1990 to 2000.

Figure 3.10b: Metropolitan Lima – Employment tenure (months) by enterprise size, 1990-2000

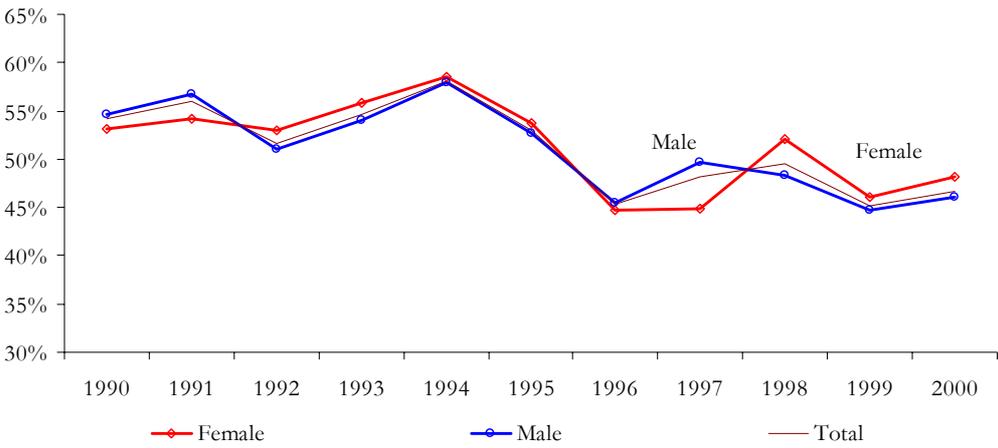


Note: 1996 and 1997 figures are estimates, as the survey for these years did not distinguish clearly medium and large enterprises. Calculations are for private paid workers only. Please see note 25 for a definition.
 Source: Author’s calculations, using ENAHO data for 1990 to 2000.

3.5 Social protection: Health care and pension plans

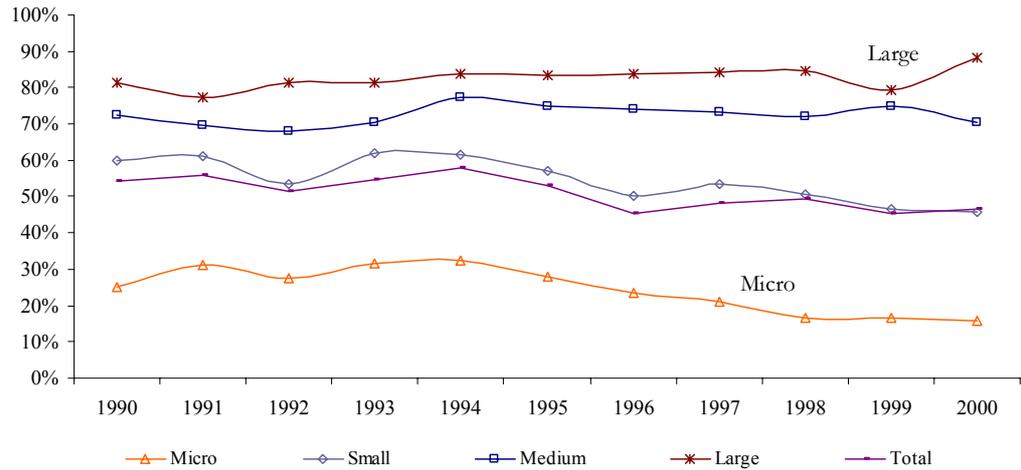
Protection for workers in Peru comprises health care and retirement pensions. Health care insurance, as mentioned in Chapter I, has undergone several funding changes during the last decade. It was probably due to these changes that total affiliation to public and private health insurance dropped from 56 per cent in 1991 to 48 per cent in 1999. Gender differences here are not significant. As Figure 3.11b shows, the major part of the reduction occurred in MSEs. This is probably related to the fact that during this period, the responsibility for paying the contributions shifted to the workers and the payment system became more individualized.

Figure 3.11a: Metropolitan Lima – Health insurance affiliation rates by sex, 1990-2000



Note: Calculations are for private paid workers only. Please see note 25 for a definition.
 Source: Author's calculations, using ENAHO data for 1990 to 2000.

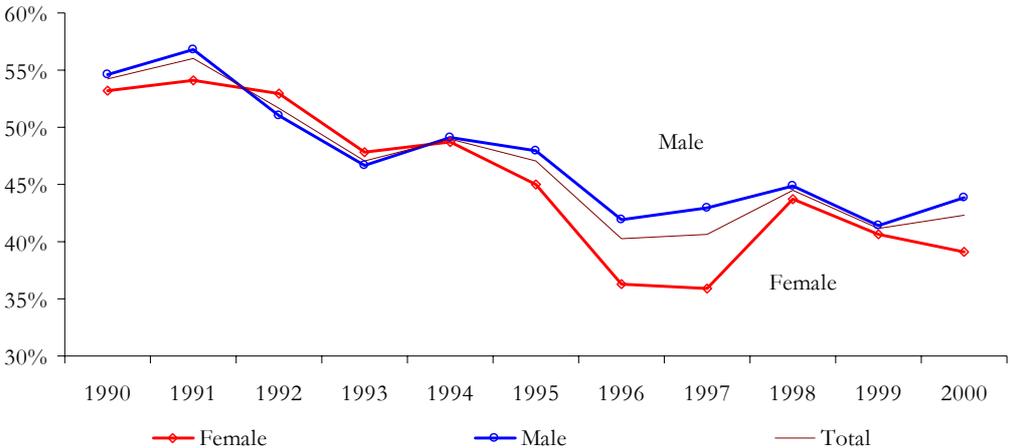
Figure 3.11b: Metropolitan Lima – Health insurance affiliation rates by enterprise size, 1990-2000



Note: 1996 and 1997 figures are estimates, as the survey for these years did not distinguish clearly medium and large enterprises. Calculations are for private paid workers only. Please see note 25 for a definition.
 Source: Author's calculations, using ENAHO data for 1990 to 2000.

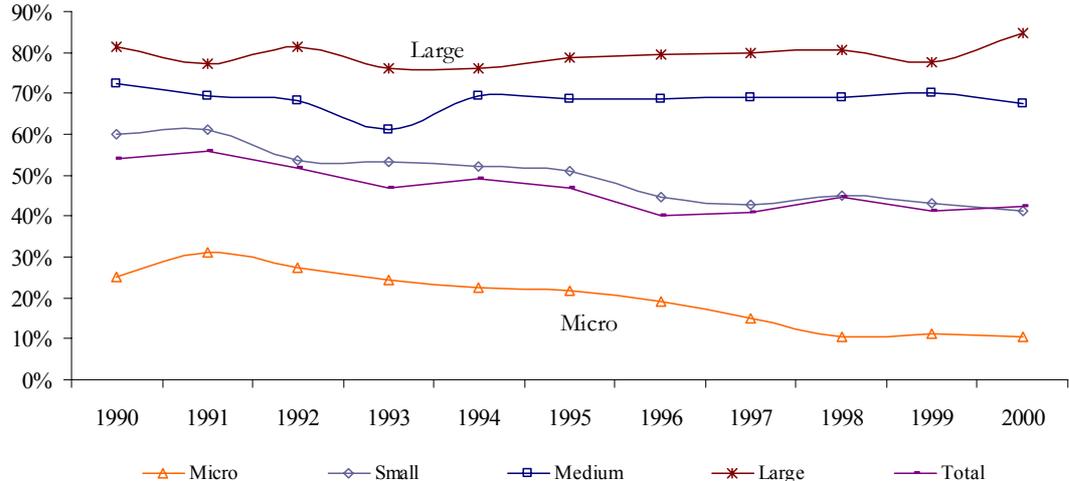
On the other hand, the Private Pension System (SPP) was created. Its main characteristic is that workers contribute to an individual capitalization fund instead of a common fund as in the case of the public pension system. In addition, the contribution was gradually assumed by the worker so that currently the pension system represents no expense for the employer and is entirely paid by the worker.

Figure 3.12a: Metropolitan Lima – Affiliation to the pension system by sex, 1990-2000



Note: Calculations are for private paid workers only. Please see note 25 for a definition.
 Source: Author’s calculations, using ENAHO data for 1990 to 2000.

Figure 3.12b: Metropolitan Lima – Affiliation to the pension system, according to enterprise size, 1990-2000



Note: 1996 and 1997 figures are estimates, as the surveys for these years did not distinguish clearly medium and large enterprises. Calculations are for private paid workers only. Please see note 25 for a definition.
 Source: Author’s calculations, using ENAHO data for 1990 to 2000.

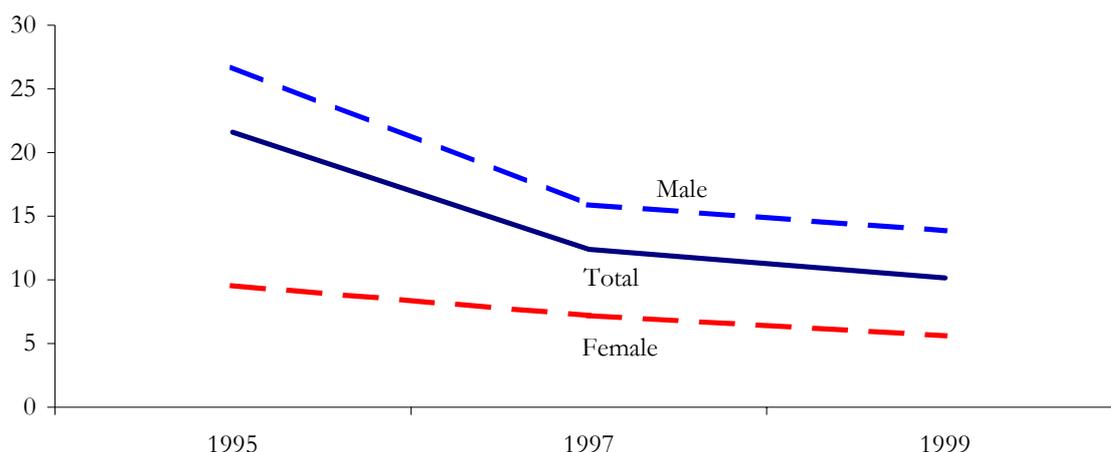
These modifications led to significant changes in the labour market. Affiliation to a pension system dropped from 56 per cent in 1991 to 44 per cent in 1999. As is the case with health insurance, gender differences are minimal and the largest drop took place in MSEs.

In short, the changes introduced in the workers’ health and pension systems, especially those related to privatization or individualization of these services, have led to a reduction in worker affiliation. Almost all of this decline took place in MSEs; affiliation levels in medium and large enterprises are the same as prior to the reforms. Thus, one can state that the individualization of the social security system has been detrimental to job quality in small enterprises.

3.6 Training

The provision of training for workers by enterprises has not been much studied in Peru, despite the fact that international experience shows that it is one of the best ways of improving human capital and keeping workers up-to-date. In Peru, investments of this type show a high-income return especially in the case of the young and have a large impact on labour productivity to the direct benefit of the enterprise.

Figure 3.13: Metropolitan Lima – Workers receiving training within the enterprise by sex, 1995, 1997, 1999 (%)



Note: Calculations are for private paid workers only. Please see note 25 for a definition.

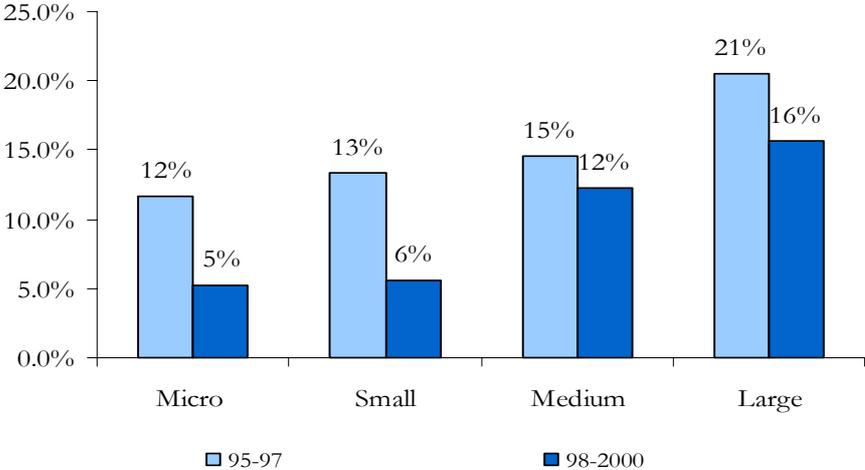
Source: Author's calculations, using ENAHO data for 1995, 1997, 1999.

One would expect enterprises to be highly motivated to train their personnel if training offers such significant benefits. However, in Peru the number of workers receiving training is not only low but it has become even lower in recent years. One of the reasons advanced to explain this situation is the type of labour reform implemented in Peru, as the increased labour turnover led to a fall in the average length of employment and therefore in investment in employee training.⁷⁹ As Figure 3.13 shows, the percentage of workers receiving training is less than half what it was five years ago. Women receive less training than men, and workers in larger enterprises receive more training than workers in smaller enterprises. One significant difference based on enterprise size is who pays for training, since large enterprises assume this cost more often than smaller enterprises (see Figures 3.14a and 3.14b).

The decrease in training is consistent with standard economic theory. Training paid for by the enterprise is an investment made in profit (i.e. more productivity and income yield capacity). Thus, if the investment recovery period is shortened as the result of higher turnover in the labour market, it is natural that these investments decrease.

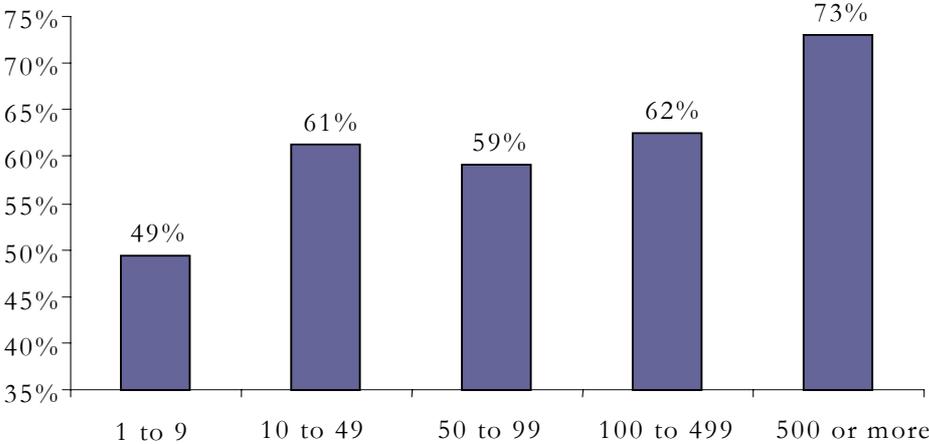
⁷⁹ For further explanation, please see Saavedra and Chacaltana (2001) and Chacaltana and García (2001).

Figure 3.14a: Metropolitan Lima – Share of workers receiving training within enterprises, 1995–2000



Note: Calculations are for private paid workers only. Please see note 25 for a definition.
 Source: Author’s calculations, using ENAHO data for 1995 to 2000.

Figure 3.14b: Metropolitan Lima – Share of workers who received training financed by enterprises, 1996



Note: Calculations are for private paid workers only. The 1996 survey is the only one enabling to determine who financed the training.
 Source: Author’s calculations, using ENAHO data for 1996.

4. Employment dynamics in different enterprise sizes – Formal employment evidence

At a given moment in time, small enterprises in Peru comprise the largest share of employment. However, this can lead to erroneous conclusions regarding employment creation (Davis, Haltiwanger and Schuh, 2000). In order to evaluate the MSE capacity for creating employment, it is necessary to analyse employment dynamics by enterprise size.

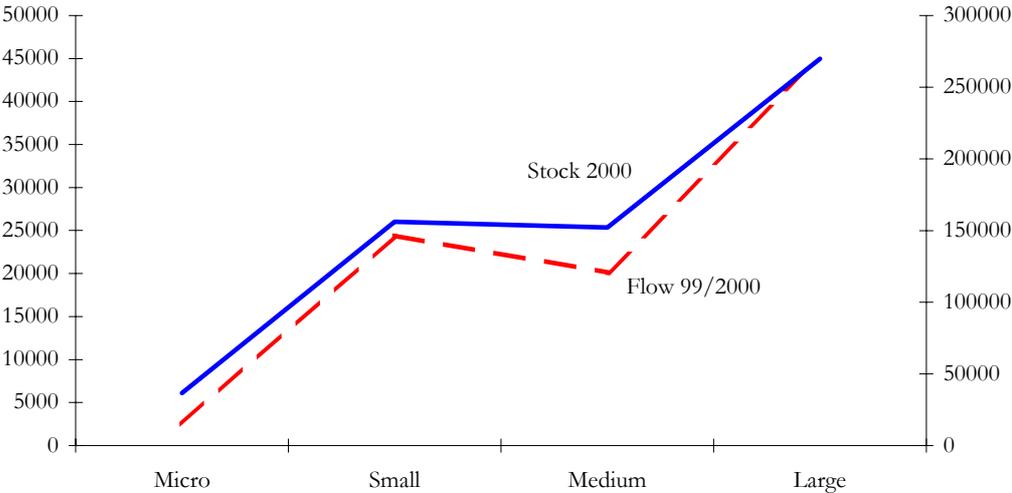
This section provides a statistical analysis of gross and net employment flows (employment dynamics) by enterprise size, using data on formal enterprise employment from the Ministry of Labour payroll records. To our knowledge, this is the first time that such type of information is used in Peru for this purpose. This is a census registration (not sample) of establishments (not enterprises) that asks for information concerning the number of people working in the enterprises each year (as of June), under any type of work contract. All enterprises with 5 or more workers are required to be annually registered on these payroll records of the Ministry of Labour. By definition, those who fulfil this registration can be considered formal establishments from the labour point of view (and those who do not as informal ones). For this study, employment registers of the Payroll Records Summary Pages (*Hojas de Resumen de Planillas*) for 1999 and 2000 were accessed and analysed. All branches of activity in all the different regions of the country are represented.

It should be emphasized that in Peru no longitudinal data on non-formal employment is available by enterprise size. For this reason, it should be borne in mind that the results given in this section refer exclusively to formal employment flows.

4.1 Employment and net employment (stock versus flow)

A first way of analyzing employment in enterprises of different size is by comparing employment stock and employment flow between two years. Figure 3.15 shows the 2000 employment distribution (stock) and net employment change (flow) between 1999 and 2000.

Figure 3.15: Formal employment stock and flows, 1999-2000



Source: Author’s calculations, using data from the Payroll Records Register of the Ministry of Labour, 1999-2000.

These initial results show that regarding formal employment, there is a close relationship between the employment stock and the creation of net employment. Large enterprises not only have more formal employment than smaller ones, but they have also generated more employment between 1999 and 2000. This is a rather intuitive result concerning the relationship between employment stock and flow, because employment stock (in this case formal) is a result of employment flows.

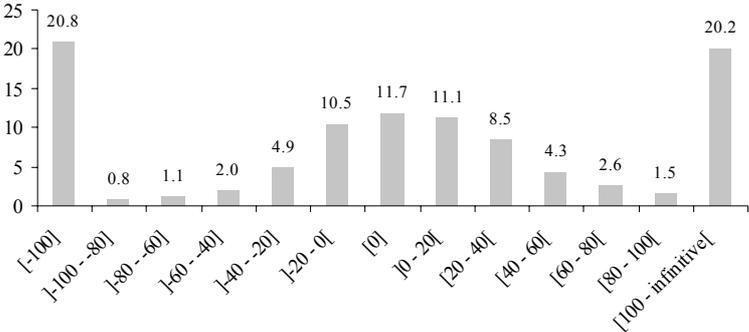
4.2 Job creation and job destruction

To analyse employment flows, it is necessary to look at the process of net employment creation and in particular its different components: employment creation and employment destruction. This analysis is complex and requires special methods.

This analysis was carried out with data collected at the establishment (plant), not enterprise (group of establishments) level. Since data are based on establishments, a job is defined as a position filled by one worker. Employment creation refers to all the positive changes in employment from one year to the next, in all the establishments that expand employment or begin operations. On the other hand, employment destruction refers to all the negative changes in employment deriving from establishments shutting down or reducing employment. Net employment change is the difference between employment creation and destruction.

Figure 3.16 shows the distribution (frequency) of the magnitude of the variations in formal employment in enterprises between 1999 and 2000, with a high concentration in the extremes and in the middle. The extremes represent cases when an enterprise was created (or registered) or left the market (or was not register anymore) during 1999-2000.

Figure 3.16: Distribution of the magnitude of formal employment variation, 1999–2000



Note: -100 per cent variation means that the enterprise left the market while infinite growth means that a new enterprise entered the market.

Source: Author’s calculations, using data from the Payroll Records Register of the Ministry of Labour.

In terms of enterprise flows (and not employment), 20.8 per cent of the enterprises ceased to exist in the second year and 15.2 per cent were new entrants to the market, leaving a net enterprise growth of -5.6 per cent among enterprises with formal employment (Table 3.7). On the other hand, the concentration in the middle of the employment distribution indicates a moderate variation of employment, between -20 per cent and 20 per cent, (to be expected after only one year). Figure 3.16 shows that the employment variation is moderate within enterprises and that the major changes are due to the entry and exit of enterprises.

Table 3.7: Dynamics of employment and number of enterprises by enterprise size, 1999-2000

| <i>Total enterprises operating in 1999 and/or 2000 (composition %)</i> | | | | | | |
|--|-----------|-------|-------|--------|-------|--------|
| | Size 2000 | | | | | |
| Size 99 | Left | Micro | Small | Medium | Large | Total |
| Entered | 0.00 | 7.01 | 6.29 | 1.29 | 0.65 | 15.24 |
| Micro | 13.85 | 17.39 | 6.68 | 0.11 | 0.00 | 38.04 |
| Small | 6.13 | 2.60 | 25.58 | 1.88 | 0.03 | 36.22 |
| Medium | 0.70 | 0.13 | 1.34 | 5.33 | 0.38 | 7.88 |
| Large | 0.13 | 0.01 | 0.17 | 0.42 | 1.90 | 2.63 |
| Total | 20.81 | 27.13 | 40.06 | 9.03 | 2.96 | 100.00 |

| <i>Break down of the percentage change in formal employment, 1999-2000</i> | | | | | | |
|--|-----------|-------|-------|--------|-------|--------|
| | Size 2000 | | | | | |
| Size 99 | Left | Micro | Small | Medium | Large | Total |
| Entered | 0.00 | 1.34 | 3.65 | 3.43 | 12.38 | 20.79 |
| Micro | -2.44 | 0.17 | 1.34 | 0.19 | 0.00 | -0.75 |
| Small | -3.32 | -0.49 | 1.18 | 1.97 | 0.46 | -0.19 |
| Medium | -1.67 | -0.28 | -1.76 | 0.65 | 1.70 | -1.36 |
| Large | -2.71 | -0.08 | -2.32 | -4.31 | -4.66 | -14.09 |
| Total | -10.14 | 0.65 | 2.08 | 1.93 | 9.88 | 4.40 |

Source: Author's calculations, using data from the Payroll Records Register of the Ministry of Labour.

What is the employment variation according to enterprise size? In table 3.8, enterprises in the different size classes are distributed according to the extent of employment variations. As could be expected, a large percentage of the smallest enterprises go out of business. However, it is surprising that between the two years analysed, a rather large percentage of large enterprises have entered the (formal) market.

A large share of microenterprises has undergone no change in their employment level, while large enterprises had the smallest incidence of "zero variation". This means that labour mobility was greater in larger enterprises.

Table 3.8: Formal employment variation by enterprise size, 1999-2000

| | Entered | Micro | Small | Medium | Large | Total |
|---------------|---------|--------|--------|--------|--------|--------|
| Less than-100 | -- | 36.41 | 16.93 | 8.90 | 4.96 | 20.81 |
|]100 - -80] | -- | 0.00 | 0.24 | 4.62 | 11.78 | 0.76 |
|]80 - -60] | -- | 0.00 | 1.52 | 4.42 | 7.23 | 1.09 |
|]60 - -40] | -- | 0.19 | 3.83 | 5.66 | 5.58 | 2.05 |
|]40 - -20] | -- | 2.57 | 8.10 | 8.90 | 9.50 | 4.86 |
|]20 - 0[| -- | 6.43 | 16.25 | 22.02 | 16.74 | 10.51 |
| [0] | -- | 19.32 | 10.72 | 4.07 | 6.82 | 11.73 |
|]0 - 20[| -- | 7.86 | 16.67 | 19.74 | 21.28 | 11.14 |
| [20 - 40[| -- | 9.62 | 10.51 | 10.21 | 8.88 | 8.50 |
| [40 - 60[| -- | 5.17 | 5.07 | 5.24 | 2.89 | 4.29 |
| [60 - 80[| -- | 3.50 | 2.85 | 1.93 | 1.86 | 2.57 |
| [80 - 100[| -- | 2.01 | 1.77 | 1.17 | 0.41 | 1.51 |
| 100 and more | 100 | 6.92 | 5.54 | 3.11 | 2.07 | 20.18 |
| Total | 100 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: Author's calculations, using data from the Payroll Records Register of the Ministry of Labour, 1999-2000.

Table 3.9 presents a summary of the above results. Between 1999 and 2000, formal paid employment grew by 4.3 per cent as recorded in the Ministry of Labour payroll register. This 4.3 per cent can be explained by a 20.8 per cent employment increase (creation), due to the entry of new enterprises in the (formal) labour market, from which must be subtracted the 10.1 per cent employment drop (destruction) caused by enterprises that left the (formal) market. Variations in the size of existing enterprises have been less important.

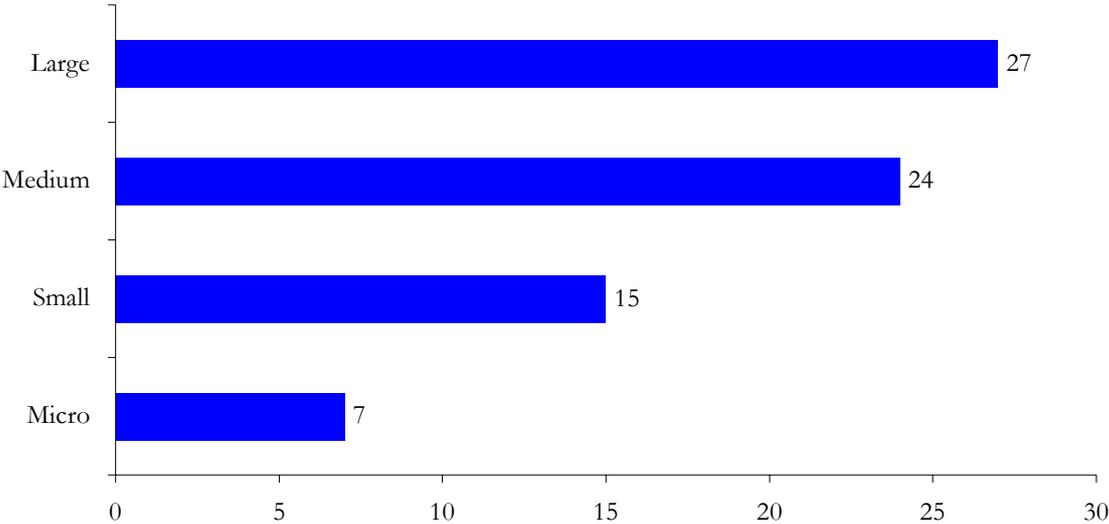
Table 3.9: Variations in formal paid employment by source, 1999-2000.

| Variation source | % |
|------------------|-------|
| Entering market | 20.8 |
| Leaving market | -10.1 |
| Changes in size | - 6.3 |
| Micro | 1.7 |
| Small | 3.1 |
| Medium | 0.3 |
| Large | -11.4 |
| Total | 4.4 |

Source: Author’s calculations, using data from the Labour Ministry Payroll Records Register, 1999-2000.

The age of the enterprises is another element that has an effect on the quality of employment of workers in these enterprises. If the enterprises offering employment are short-lived, employment will obviously be unstable and short term.

Figure 3.17: Duration of enterprises, according to enterprise size (years)



Source: Author’s calculations, using data from the Payroll Records Register of the Ministry of Labour, 2000.

Figure 3.17 shows that, while large enterprises have been in business for an average of 27 years, micro enterprises only reach 7 years on average. Thus, jobs created by these MSEs are short term and do not assure the workers a permanent income in the long term. On the contrary, the high failure rates of enterprises, especially of micro enterprises, and the resulting negative effects they have on employment, accelerates worker turnover in the labour market.

Chapter V provides the conclusions of this analysis and makes some recommendations for future improvement in the MSE sector in Peru.

IV. CONCLUSIONS AND RECOMMENDATIONS

In the last 10 years, Peru has gone quickly from a fairly controlled and protected economy with a relatively high degree of government intervention to a quite free and flexible economy with less government participation and in which important economic decisions are left to private initiative. This is the consequence of structural reforms aiming at modifying the economic growth pattern. The foreign trade reform that led to rapid trade expansion, the reform of the tax system that improved efficiency and collection, and the labour reform that made the employee-employer relationship more flexible and individualized the worker social protection systems are among the most important of these reforms.

This report examines the role played by policies – direct and indirect – on the behaviour of MSEs and particularly on the quality of the jobs they generate. It also analyses the macroeconomic context and the labour market in Peru, identifying the main changes that have taken place in the past 10 years. The main conclusions are set out below, together with a series of recommendations for the generation of decent work in the MSE sector in Peru.

MSE employment growth pattern. MSE employment has grown continuously throughout the 1990s. The MSE share in urban employment increased from 55 per cent in 1990 to almost 65 per cent at the end of the decade. However, evidence shows a negative relationship between this growth pattern and the Gross National Product variation. At the same time, MSE employment growth has occurred at the expense of a lack of increase in average income in this sector. Most employment growth would thus seem a survivalist strategy used by workers who, upon not finding jobs in any other types of enterprises, take the MSE initiative in the hope of some improvement in their critical situation.

Institutional framework. Efforts have been made in the last decade to improve MSE access to formality. In addition, the legal framework was created for development programmes in which, according to figures from the Ministry of Labour, the Peruvian Government spends approximately US\$300 million. Nonetheless, no significant improvements have been observed in the quality of MSE jobs.

Legal and regulatory framework. Seven policy areas affecting MSEs have been analysed in this report, including trade, tax, financing, labour legislation and innovation and training policies. In the main, their focus is on large enterprises and not MSEs. When laws or regulations do refer to MSEs, they usually do not incorporate mechanisms adapted to their specific situation. According to the qualified informants interviewed in the course of this report, these regulations lack representativity, coherency and clarity. It is therefore not surprising that surveyed MSE operators consider that these policies had no effect on the employment volume and quality that they created.

Implementation. There is a clear disparity between the design of the legal framework and its application. In many cases, those designing the laws did not consult the relevant agents. In addition, the lack of coordination between the central and local governments and issues surrounding how to put MSE promotion laws into practice seem to increase implementation problems. Other factors widening the gap between intention and application include such areas as transparency, modernization, decentralization, impartiality and efficiency.

Compliance with the law. One of the major problems in Peru is the Government's inability to enforce its laws (especially among MSEs), exacerbated by the characteristics of the legal framework itself. However, the characteristics of the MSEs also come into play. Two types of MSE are analysed in this report: those with productivity levels high enough to cover the cost of compliance and those with insufficient productivity levels. In the case of MSEs with acceptable productivity levels that do not comply with regulations, it has been shown that there is plenty of room for the Government to act – by strengthening a labour market institution which up to now has been underestimated: labour inspection. Observance of the laws can be improved by increasing the possibility of detecting legal and, especially, labour infractions. This report shows that local governments conducting more inspection visits are precisely those whose laws are the most observed. For enterprises with insufficient productivity levels, the issue arises of the cost effectiveness of intervention in this sector.

Impact of the regulatory environment on job quality. Many of the reforms implemented, especially those making labour relations and worker social protection more flexible, have had a highly negative impact on MSE job quality. Little attention to this sector has led to deteriorating employment conditions. Why has the flexibilization of the labour market produced this kind of result? In the view of this report, the labour market was liberalized too quickly and, at the same time, almost all of the institutions balancing the bargaining powers between workers and employers were eliminated. This has had the double effect of reducing the incentive for long-term employment relationships and substantially reducing worker bargaining power. Not surprisingly, under these conditions job quality has been one of the variables of adjustment. In addition, since employment and its quality are a result of what takes place in the market for goods, if this market is unstable, then so will the labour market be unstable.

This has not stopped a small group of MSEs from developing good labour practices, such as incentives for productivity, wage increases, pension plans, written contracts, and training. These practices have been not only of advantage to workers but also to MSE entrepreneurs, who have benefited from them in the recent past and, more importantly, expect additional gains in the near future. Unfortunately, good labour practices at the work place make the best sense when applied to medium- and long-term employment relationships – and the latter have been severely affected by the reforms implemented.

Bearing in mind these conclusions, this report proposes the following recommendations:

First, sufficient evidence exists on the need for a stable economic growth pattern. This is important to curtail the large number of discouraged workers leaving large enterprises to compete in the MSE sector. It is also important because only a stable demand in the final product market makes it possible to think about more permanent employment relationships that make way for “good labour practices” which, in turn, have significant effects on MSE economic performance.

Second, it is essential to concentrate on MSE job quality which, due to the relative weight of this sector, has an enormous influence on job quality in the labour market in general. Here, two types of action can be considered. The first is to use the findings of this report to re-orient the regulatory framework and to eliminate those obstacles that hinder the use of good labour practices. The issues include an uncertain market for final products, high labour turnover, the high cost of information and training, some specific regulations

concerning incentives for productivity (for example, limitations on contracts for products) and the low quality of training institutions.

A complementary route is to strengthen the labour market institutions that were severely affected in the past decade. One way is to promote a new culture of the labour movement – to go beyond the confrontational political aspirations of the past, to defend workers' rights and join these efforts to those of MSE operators, so that workers and employers both benefit. A unionisation rate as low as the one in Peru is not healthy for either workers or, in the opinion of this report, for entrepreneurs.

Another way to strengthen labour market institutions is to modernize the Ministry of Labour's labour inspection system. It is necessary to increase the likelihood of discovering labour infractions and the Ministry of Labour cannot do this alone. This report proposes that the inspection system be decentralized through arrangements with local governments. These have more comparative advantages for working with MSEs. For example, a system of Labour Defence Offices could operate (similarly to the Organization for the Defence of Children and Adolescents (DEMUNAS) – a civilian mechanism for observing certain behaviour) by offering a decentralized legal defence service to workers through the municipalities. This would increase the possibility of detecting labour infractions and make it possible to increase the bargaining power of the workers.

In this recommendation, it is necessary to include MSEs whose productivity levels are not high enough to provide good quality employment. The question is whether or not they should be left in their current situation? Should they be allowed to disappear or should they be helped to survive, at least in the short term? From the strictly economic viewpoint, one could argue that it is not very cost-effective to invest resources in this type of enterprise. The number of workers involved implies that an adjustment period will be required. Here, existing systems should be used to advantage. Approximately one-third of all MSEs registered in the RUS (Unified Tax Regime) have declared a very low productivity level.⁸⁰ The tax authorities allow them to pay a lower tax rate but at the cost of not being able to issue sales receipts. This places limits on the sales these enterprises can make. This report recommends that enterprises registered in the RUS should receive special treatment in labour matters. In particular, they should be allowed a more extensive use of existing productivity payment systems: piecework and commissions, without the high requirements placed on these (the basic salary must be the equivalent of the minimum wage).

Finally, new challenges and activities have been suggested for the local governments. In this sense, it would be best to increase their capacity for generating their own income. Along these lines, the proposal made by the civil servants of the Tax Administration of the Municipality of Lima should be considered. This group has expressed their willingness to administer both the special tax regimes, the RER and the RUS, since this is very difficult for the SUNAT (National Tax Administration) to administer.

⁸⁰ GRADE, 2001.

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ANNEX 1: Interviews conducted in the course of this report

Government Officials

| | |
|----------------|---|
| José Arista | Jefe de Superintendencia Administración Tributaria de Lima. (Chief in the Lima Tax Administration Superintendency) |
| Rafael Cotrina | Director of Employment Promotion |
| Carmen Vildoso | Vice-Minister of Employment and MSEs |
| Isaías Flit | CITES |
| Iván Mifflin | Director del Programa de Pequeña Empresa, Ministerio de Industrias (Director of the Small Enterprise Programme, Ministry of Industry) |
| Luis Soltau | Intendente Nacional de Planeamiento - SUNAT (National Administrator of Planning – SUNAT) |

Private Sector – NGOs, others

| | |
|------------------------|--|
| Emma Cevallos | Directora proyecto Urbano CEDEP (Director of the CEDEP Urban Project) |
| Eduardo Albareda | Coordinator of the MSP Project, ADES-AID |
| Christian Doebel | Coordinator of the MSE Development Project – La Libertad Chamber of Commerce and Production |
| David Sifuentes Ibarra | IDESI LIMA Executive Director |
| Emigdio Mondragón | |
| Santa Cruz Executive | Director and President of the Board, Association for Consultancy, Finance and Rural Development Association – AFIDER |
| Inés Carazo | Proyecto de Innovación Tecnológica - Cooperación Española (Technological Innovation Project – Spanish Cooperation) |
| Mario Tueros | Specialist in Cooperative and Small Enterprise Development – ILO |
| Abelardo Vildoso | ADEC-ATC |

Academic representatives/Consultants

| | |
|------------------------|---|
| Eliana Chavez O'Brien | past president of COPEME, currently a consultant |
| Enrique Vásquez | Proyecto Pro – Pyme, Universidad del Pacifico (Pro-MSE Project, Pacific University) |
| Miguel Robles | MSE Investigator – GRADE |
| Miguel Jaramillo | Consultant |
| Marco Valencia Medrano | CYNSEYT – Executive Director |
| Guido Sánchez | SYSA Consultant |

ANNEX 2: Statistical data: Macro-economic environment

Table A1: Gross national product per capita, 1993-2000

| Year | GNP (millions US\$) | Population (millions) | Per capita GNP | Variation % |
|---------|---------------------|-----------------------|----------------|-------------|
| 1993 | 34,893 | 22,740 | 1,534 | -4,9 |
| 1994 | 44,930 | 23,130 | 1,942 | 26,6 |
| 1995 | 53,606 | 23,532 | 2,278 | 17,3 |
| 1996 | 55,827 | 23,947 | 2,331 | 2,3 |
| 1997 | 59,045 | 24,371 | 2,423 | 3,9 |
| 1998 | 57,074 | 24,785 | 2,303 | -5,0 |
| 1999 | 52,006 | 25,232 | 2,061 | -10,5 |
| 2000(*) | 53,961 | 25,662 | 2,103 | 2,0 |

Source: Author's calculation, using data from the Central Reserve Bank of Peru (BCRP).

Table A2: GNP by economic sector, 1990-2000

| | | Agriculture and animal husbandry | Fishing | Mining and quarrying | Manufacturing | Construction | Trade | Others | GNP |
|------|----------|--|---------|-------------------------|---------------|--------------|-------|--------|------|
| 1990 | % GNP | 7.8 | 0.7 | 4.4 | 15.6 | 4.1 | 14.4 | 53 | 100 |
| | Growth % | 8.7 | 3 | 0.1 | 2.7 | 3.1 | 2.4 | 11.1 | 5.1 |
| 1991 | % GNP | 8 | 0.5 | 4.4 | 16.1 | 4 | 14.5 | 52.5 | 100 |
| | Growth % | 4 | 23.5 | 3.6 | 5.4 | 0 | 2.9 | 1.1 | 2.2 |
| 1992 | % GNP | 7.3 | 0.7 | 4.5 | 15.7 | 4.1 | 14.4 | 53.4 | 100 |
| | Growth % | 9.1 | 27.2 | 0.9 | 3.3 | 2.3 | 0.9 | 1.3 | 0.4 |
| 1993 | % GNP | 7.6 | 0.7 | 4.7 | 15.5 | 4.7 | 14.1 | 52.7 | 100 |
| | Growth % | 9 | 3.9 | 10.2 | 3.4 | 20.3 | 2.6 | 3.5 | 4.8 |
| 1994 | % GNP | 7.6 | 0.7 | 4.7 | 16 | 5.6 | 14.6 | 50.9 | 100 |
| | Growth % | 13.2 | 21.1 | 12 | 16.6 | 33.3 | 16.3 | 8.9 | 12.8 |
| 1995 | % GNP | 7.6 | 0.6 | 4.5 | 15.5 | 6 | 15.1 | 50.7 | 100 |
| | Growth % | 9.1 | -13.2 | 4.3 | 5.4 | 17.3 | 12.2 | 8.2 | 8.6 |
| 1996 | % GNP | 7.8 | 0.5 | 4.6 | 15.4 | 5.7 | 14.8 | 51.1 | 100 |
| | Growth % | 5.2 | -4.8 | 5.1 | 1.5 | -2.3 | 0.9 | 3.3 | 2.5 |
| 1997 | % GNP | 7.7 | 0.5 | 4.7 | 15.2 | 6.2 | 15 | 50.7 | 100 |
| | Growth % | 5.4 | -1.8 | 9 | 5.3 | 14.9 | 7.8 | 6 | 6.7 |
| 1998 | % GNP | 7.9 | 0.4 | 5 | 14.7 | 6.3 | 14.6 | 51.2 | 100 |
| | Growth % | 1.3 | -13.7 | 5.6 | -3.6 | 0.7 | -3.1 | 0.5 | -0.4 |
| 1999 | % GNP | 8.7 | 0.5 | 5.5 | 14.5 | 5.5 | 14.1 | 51.1 | 100 |
| | Growth % | 12 | 28.9 | 11.8 | 0.3 | -10.8 | -1.6 | 1.2 | 1.4 |
| 2000 | Growth % | 6.4 | 8.1 | 2.4 | 6.5 | -4.5 | 5.3 | 2.8 | 3.6 |

Source: Author's calculations, using data from the Central Reserve Bank of Peru 1999 Annual Report.

ANNEX 3: Mapping of main laws and regulations affecting MSEs

I. SPECIFIC MSE POLICIES

| |
|--|
| <p>Principal Policies, Laws and Regulations</p> <p>Ley General de la Micro y Pequeña Empresa, Ley 27268 (2000) (General Small and Micro-Enterprise Law)</p> <p>Reglamento de la Ley 27268 (2000) (Law 27268 – Regulations)</p> |
| <p>Summary of the General Small and Micro-Enterprise Law and its Regulations</p> <p>Contrary to how the law was developed, its regulations were decided in consultation with institutions related to the MSE sector, and contain the most interesting innovations of this law.</p> <p>The law defines MSEs as being economic units operated by individuals or “juridical persons” in which the number of workers does not exceed 10 in the case of micro enterprises. Small enterprises have at least 10 and no more than 40 workers. However, government ministries and institutions have the possibility to adopt alternative classifications for MSEs when elaborating or implementing specific policies. These definitions can be based on criteria that differ from the number of workers.</p> <p>The Law clearly establishes the subsidiary role of the Government in MSE development. Regarding formalisation, the main innovation is that the Municipal License is not free of charge, and its cost must bear a direct relationship to the administrative cost of issuing it.</p> <p>Regarding the promotion and development of the MSE sector, the roles and responsibilities assigned by the Law to the different actors are described in section 2.1 of Chapter II of this Report.</p> <p>The areas embraced by the Law are the following:</p> <ul style="list-style-type: none"> • <i>Training</i> • <i>Technical Assistance</i> • <i>Technological Innovation</i> • <i>Financing.</i> The Law proposes that the Government instigate credit actions and foster the creation and expansion of guarantee funds, credit insurance and others in order to broaden MSE support. The Law also encourages private investment in these entities and the formalization of institutions and enterprises not monitored by the Superintendency of Banking and Insurance that provide financing for MSEs. • <i>Commercialization and government contracts</i> • <i>Information Systems</i> • <i>Industrial Parks and Maquicentros (Technical and Productive Training Centres).</i> |
| <p>Implementation Agencies</p> <p>Ministry of Industry, Tourism, Integration and International Trade Negotiations (MITINCI) Tax Administration Superintendency (SUNAT) Municipalities</p> |
| <p>Roles of the main stakeholders involved</p> <p>Role assigned by policy:</p> <ol style="list-style-type: none"> (i) Governmental Agencies: Almost all. (ii) Organizations Representing the MSEs: Coordination Board, PYME; PROMPYME. (iii) Workers’ Organizations: None. (iv) Community and NGOs: Participation on the MSE (PYME) Coordination Board |

II. REGISTRATION AND BUSINESS REGULATIONS

| | |
|---|--|
| <p>Principal Policies, Laws and Regulations</p> <p>Texto Único Ordenado del Código Tributario (Unified Tributary Code) (1999) Texto Único de Procedimientos Administrativos de los Municipios (Unified Municipal Administrative Procedures Code) Texto Único de Procedimientos Administrativos / Sector Trabajo (2001) (Administrative Procedures Code / Labour Sector)</p> | |
| <p>Summary</p> <p>Starting a business as an individual (one-person) enterprise does not require the preparation of a notary document or charter to register it. The other procedures are similar to those for an enterprise started by a “juridical person” and consist on the following steps. First, do a search and register the enterprise name (trademark) in INDECOPI. Next, get a RUC number and authorization to issue receipts. Finally, 1) get a Municipal License 2) certify the payroll books and 3) register the workers in ESSALUD.</p> <p>If the enterprise is started by a Juridical Person (association) it must be registered in the following manner. First, obtain a Commercial Search Certificate (<i>Certificado de Búsqueda Mercantil</i>) and the application to reserve the company or trade name. Second, ownership of the trademark must be searched and registered in INDECOPI for the fixed period of 10 years if the company name is to be associated with a particular product. Third, the preparation of the charter indicating the type of enterprise being formed and information about the owner or associates. Once the charter is prepared, it undergoes a notary process before being registered in the corresponding Public Records. Fourth, once the charter has been presented to the public records office, the enterprise is registered. The fee for this registration is a little more than US\$ 5. However, once the enterprise is registered, it must pay registration rights, that vary according to the initial capital of the enterprise. Fifth, the enterprise must register for a RUC number. To do this, entrepreneurs must fill in the forms pertaining to the type of tax regime to which they have decided to belong (the RUS, the RER, or the general tax regime). They must also 1) get a Municipal License 2) certify the payroll books and 3) register the workers in ESSALUD.</p> <p><i>The Tax Payer’s Registry (RUC):</i> This is a register that includes information about every individual or juridical person that is by law required to pay the taxes administered or collected by SUNAT.</p> <p><i>Municipal Business License:</i> This is the municipal authorization to start a business. To obtain it, it is first necessary to have obtained a RUC number.</p> <p><i>Payroll Book:</i> It must be kept in each workplace and be certified by the Ministry of Labour. This process requires the presentation of the RUC registration and the payment of a 1 per cent UIT fee.</p> <p><i>Registration in the Health Care System (ESSALUD):</i> Employers must register within 10 days of becoming employers.</p> | |
| <p>Implementation Agencies</p> <p>Superintendencia Nacional de Registros Públicos (SUNARP) (National Public Records Superintendency) Ministry of Labour and Social Development (MTPS) National Tax Administration Superintendency (SUNAT) Municipalities</p> | |
| <p>Roles of the main stakeholders involved</p> <p>Role assigned by policy to:</p> <p>(i) Government Agencies: All the roles concerning legislation and implementation. (ii) Organization representing the MSEs: None (iii) Workers’ Organizations: None. (iv) Community and NGOs: None.</p> | |

III. TAX POLICY

| | |
|---|--|
| Principal Policies, Laws and Regulations | |
| General Regime | (1999) |
| Special Income Tax Regime (RER) | (1999) |
| Unified Tax Regime (RUS) | (1999) |
| Municipal Tax Law | (1999) |
| Summary | |
| <p>The reform implemented between 1991 and 1994 eliminated most of the then existing multiple tax differentiations, in order to fulfil certain basic principles concerning tax policy and its efficiency such as simplicity, neutrality stability over time, and facility of administration. The purpose of this reform was not to generate instruments for the formalization of small enterprises since its objective was completely different.</p> <p>In order to foment the formality of the tax regulation system, there are two special tax regimes: the RUS and the RER. The general tax regime applicable to all enterprises establishes different taxes that must be paid by Peruvian enterprises, among these the most important are the general sales tax and income tax.</p> <p>The Special Income Tax Regime (RER) and the Unified Tax Regime (RUS) are special tax regimes for individuals or juridical persons whose annual incomes are not more than PEN 216,000 (about US\$60,000). The purpose of the Simplified Tax Regime is to reduce the relative cost of being formal by expediting and simplifying the compliance with tax regulations.</p> <p>There is a special category for those selling certain agricultural products. In this case they do not pay anything as long as their monthly income does not exceed S/. 2,200.</p> <p><i>The local tax systems</i> (Municipalities): the legal regulations controlling these systems make the municipalities largely dependent on the central government. The main source of financing for the municipalities is the municipal development tax (2 of the 18% sales tax collected). The Municipality Law (DL 776) establishes that the municipalities may only collect taxes for concepts such as property and vehicle taxes, as well as for tariffs and services provided to the inhabitants of their respective municipalities.</p> | |
| Implementation Agencies | |
| National Tax Administration Superintendency (SUNAT) | |
| Roles of the main stakeholders involved | |
| Role assigned by policy to: | |
| (i) | Government Agencies: All. |
| (ii) | Organization representing the MSEs: None |
| (iii) | Workers Organizations: None. |
| (iv) | Community and NGOs: None. |

IV. LABOUR POLICY

| Principal Policies, Laws and Regulations | |
|--|--------------|
| Individual Rights | |
| Ley de Formación y Promoción Laboral (Labour Formation and Promotion Law) | (1997) |
| Ley de Productividad y Competitividad Laboral (Labour Productivity and Competitiveness Law) | (1997) |
| Ley de compensación por tiempo de servicios (Compensation Law for the length of the term of employment) | (1997) |
| Paid rest periods | (1991, 1994) |
| Work-day, schedule and overtime | (1996) |
| Legal Bonuses | (1989) |
| Profit sharing | (1996, 1998) |
| Minimum Wage | (1993, 2000) |
| Prenatal and Postnatal Time Off | (1996) |
| Ley de modernización de la seguridad social en salud (The Health Care System Modernization Law) | (1997) |
| Collective Rights | |
| The collective rights law | (1998) |
| Inspection | |
| Inspection Regulations | (1992) |
| Summary | |
| <i>Individual Rights</i> | |
| <p>This includes family allowances and compensation for the length of time the worker has been employed (CTS) for workers who work a minimum average of four hours a day. The law establishes that the CTS may be paid monthly.</p> <p>The law also establishes obligatory paid weekly rest periods.</p> <p>The law establishes the maximum legal work-day and also matters related to work schedules, overtime and extra hours.</p> <p>Workers in private sector employment have the right to two bonuses (extra monthly salaries) twice a year, one in July (Independence Day celebrations) and one in December (Christmas).</p> <p>In regard to minimum wage, salaries are open to negotiation between the parties involved as long as the legal minimum wage is respected. The current legal minimum wage is S/.410 (roughly US\$ 117).</p> <p>All workers who have worked at least four years with the same employer have the right to life insurance. The law also establishes that women have the right to time off for nursing, as well as for prenatal and postnatal rest periods. The law forbids dismissal for reasons concerning health and discrimination in access to employment.</p> <p>In regard to the social health care system, the insured parties are offered prevention, promotion, recovery and subsidies for health care, social welfare, work, and occupational diseases. A complementary part of this protection is occupational hazard insurance (for high risk employment).</p> <p>Regulations also concern the protection of the workers and the procedure for designating the worker's representative should the enterprise go bankrupt or become insolvent.</p> | |

Collective Labour Rights

The Law concerning collective relations includes the freedom to associate, collective bargaining and the right to strike.

Labour Inspection is the responsibility of the Ministry of Labour. The Ministry of Labour also offers free assessment and consultancy services, and the possibility for every worker to request a conciliation meeting with his employer.

Implementation Agencies

The Ministry of Labour and Social Development (MTPS)

Roles of the main stakeholders involved

Role assigned by policy to:

- (i) Government Agencies: All functions.
- (ii) Organization representing the MSEs: very limited participation
- (iii) Workers' Organizations: Very limited participation
- (iv) Community and NGOs: No participation

V. TRADE POLICIES

Principal Policies, Laws and Regulations

Ley de Libre Comercio (Free Trade Law) (1991)
Ley General de Aduanas (General Customs Law) (1996)
Ley General de la Micro y Pequeña Empresa (Small and Micro-Enterprise Law) (2000)

Summary

The reform in the early 1990s established a free trade system as a result of which the Government withdrew its intervention, did not give any type of trade monopoly, guaranteed free trade (free access to and transaction of goods not produced within the country) and placed no limits on the possession of foreign currency.

In addition, it established international trade principles such as *the non-exportation of taxes*, and authorized the return of indirect taxes that affect the productive process of export goods. Thus, exports have no duties placed on them at all and are eligible for a general sales tax return (*drawback*).

In regard to import tax, the number of differentiations, exemptions and special regimes existing in the different types of customs taxes were drastically reduced. Currently, imports are subject to non-flat tax rates *ad valorem* CIF that oscillate between 5 per cent and 15 per cent.

In regard to trade policies concerning MSEs, direct measures are given through PROMPYME, which is responsible for providing information that will help make the markets more dynamic.

The laws for promoting foreign trade were conceived under the supposition that foreign trade is an activity typical of large enterprise and that MSEs are only affected indirectly.

PROMPEX has expressly supported small enterprise since its initiation in 1996.

The General Small and Micro-Enterprise Law adds that the Government will foster the sale of MSE goods and services by promoting sub-contracting systems and the formation of consortiums, government purchases, the promotion of fairs and other mechanisms to give them a wider, more accessible market. PROMPYME is responsible for coordinating and following up these activities.

The Government fosters sub-contracting in order to optimize the connection and integration of small and micro enterprises with medium and large ones.

The government, through its different sectors, institutions and organisms, is responsible for backing and expediting private initiative in the promotion, organization, and execution of fairs and international, national, regional and local expositions. PROMPEX is also in charge of organizing international fairs.

The government, through PROMPEX, sponsors annual visits abroad for MSE entrepreneurs in order to foment the exportation of their products. It also carries out a permanent training programme so that MSE entrepreneurs can adapt their production to the quality demanded by the international market.

Implementation Agencies

National Customs Administration Superintendency (Superintendencia Nacional de Aduanas - SUNAD)

Roles of the main stakeholders involved

Role assigned by policy to:

- (i) Government Agencies: All
- (ii) Organization representing the MSEs: None
- (iii) Workers Organizations: None
- (iv) Community and NGOs: None

VI. FINANCE POLICIES

Principal Policies, Laws and Regulations

Ley General de Banca y Seguros (General Banking and Insurance Law) (1996)

Summary

The Government does not participate in the national financial system except for COFIDE investments as a development bank and a second tier bank. Freedom exists to set interest rates, commissions and fees, although the Central Reserve Bank can place limits on the interest rate.

This regulation establishes that foreign investment in the enterprise should receive the same treatment as national capital and that discriminatory practices between firms are forbidden. However, foreign investment is subject to the relevant international conventions. Due to the risk diversification principle, the Superintendency does not authorize the creation of enterprises meant to support only one sector.

The law contemplates the existence of financial entities specializing in small productive units or enterprises. These are the Rural Savings and Loans Associations (CRAC), the Municipal Savings and Loans Associations (CMAC), and the Small and Micro-Enterprise Development Enterprises (EDPYME). The first two specialize in gathering resources from the public and carrying out financial operations for MSEs in their respective rural and local ambits. The third has no restrictions placed on its ambit. Nonetheless, the other multiple banking and financial entities are also permitted to deal in the micro-credit market.

The law permits the establishment of entities specializing in micro-finance by varying the minimum amount of capital required for the operation of the entities and their subsidiaries. Thus the CRAC, CMAC and the EDPYMEs are only required to have S./ 678,000 while the banking enterprises are required to have S./14,914,000. The idea is that this makes it possible for organizations such as NGOs offering financial services outside the financial system to become part of it while at the same time benefiting it with the experience said organizations have in offering financial services to this sector.

Implementation Agencies

The Ministry of the Economy and Finance (Ministerio de Economía y Finanzas – MEF)
 The Central Reserve Bank of Peru (BCRP)
 The Superintendency of Banking and Insurance (SBS)

Roles of the main stakeholders involved:

Role assigned by policy to:

- (i) Government Agencies: Total
- (ii) Organization representing the MSEs: None
- (iii) Workers Organizations: None
- (iv) Community and NGOs: Some NGOs belong to EDPYMEs

VII. INNOVATION POLICIES

| |
|--|
| <p>Principal Policies, Laws and Regulations</p> <p>Law concerning Technological Innovation Centres (CITEs) (2000) The Small and Micro-Enterprise Law (2000)</p> |
| <p>Summary</p> <p>The CITEs promote competitiveness and productivity through innovation, the transfer of technology and by supplying information to various industries. They offer quality control and certification services as well as technical assistance, assessment and training. They may be private or public. The regulations of the General Small and Micro-Enterprise Law establish that the Government is obliged to guarantee the supply of investigation, innovation and technological services while at the same time promoting private investment in these areas.</p> |
| <p>Implementation Agencies</p> <p>The Ministry of Industry, Tourism, Integration and International Trade Negotiations (MITINCI)</p> |
| <p>Roles of the main stakeholders involved</p> <p>Role assigned by policy to:</p> <ul style="list-style-type: none">(i) Government Agencies: To direct government CITEs and evaluate private ones.(ii) Organization representing the MSEs: None(iii) Workers Organizations: None(iv) Community and NGOs: Two representatives from the industrial sector are members of the Board of Directors of the Government. CITEs and private institutions are now permitted to form part of the board also. |

ANNEX 4: Coverage of the principal databases used

Table A.4: Description of main databases used

| <i>1. Payroll Summary Pages</i> | |
|---|---|
| Institution responsible | Ministry of Labour and Social Development |
| Years available | 1993-2000 |
| Geographic coverage | Peru |
| Observations | It only includes formal enterprises with 5 or more workers. |
| <i>2. National Household Survey - ENAHO</i> | |
| Institution responsible | National Institute of Statistics and Data (INEI) / Ministry of Labour and Social Development (MTPS) |
| Years available | 1986-1987; 1989-2000 |
| Geographic coverage | Until 1996, only the survey for Lima was available; in the years 1997-2000 the survey for all of Peru was available. |
| Observations | This is a three-monthly survey; the third trimester is used in this investigation since it specializes in employment and income. The data referring to the size of the economic unit of the worker only considers the size of the enterprise (number of people per enterprise; not the number of people per establishment or productive unit). |
| <i>3. Micro-enterprise Survey</i> | |
| Institution responsible | ADEC –ATC |
| Year available | 1996 |
| Geographic coverage | Lima |
| <i>4. MSE Survey</i> | |
| Institution responsible | Ministry of Labour and Social Development (MTPS) under the auspice of the ILO |
| Year available | 2001 |
| Geographic coverage | National |

Source: Prepared by the author.

ANNEX 5: Evaluation of the policy environment by key informants

Table A5: Average answers, on a scale of 1 to 10, of the key informants asked to evaluate policies

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|----|
| <p><i>Clarity:</i> Do you find that part of the MSE legislation lends itself to errors, ambiguities, or misunderstanding? (1) All the laws have parts that can lead to errors or not be understood. (10) Everything is clear, there are no ambiguities and they can be perfectly understood.</p> | | | | | | | | | | |
| <p><i>Transparency</i> Do you believe that the elaboration of the legislation included arbitrariness, hidden aspects or corruption? (1) The laws were arbitrarily elaborated in a corrupt environment with hidden aspects. (10) Everything is transparent, there are no hidden aspects, corruption or arbitrariness.</p> | | | | | | | | | | |
| <p><i>Information</i> How difficult do you believe it is to obtain information about laws and regulations? Is it even difficult for the specialists? (1) It is very difficult even for the specialists. (10) Access is simple and easy.</p> | | | | | | | | | | |
| <p><i>Implementation</i> Are there any laws or regulations favouring MSEs that are not implemented by the Government? (1) Yes, there are many favourable ones that are not implemented. (10) No, there is no law promoted that is not implemented.</p> | | | | | | | | | | |
| <p><i>Administrative Coherence</i> Are the policies implemented by the central and local governments coherent (coordinated and not in opposition)? (1) There is a lot of contradiction, opposition and lack of coordination between the actions carried out by the central and local governments. (10) There is almost perfect coordination and coherence.</p> | | | | | | | | | | |
| <p><i>Anti-MSE Bias</i> Do you believe there is any anti-MSE bias in the implementation of policies at any government level? (1) Yes, there is a strong anti-MSE bias in the legislation. (10) No, there is no anti-MSE bias in the legislation.</p> | | | | | | | | | | |
| <p><i>MSE Representation</i> Do you believe that there is any type of MSE representation in the elaboration of legislation or its reforms? (1) No, there is no type of MSE representation. (10) Yes, there is a significant amount of MSE representation.</p> | | | | | | | | | | |
| <p><i>Gender Discrimination</i> Have you frequently found gender discrimination present in public policy, either in the formulation of laws and regulations or in their implementation and administration? (1) There is generalized gender discrimination in public policy. (10) No, there is no gender discrimination in legislation or in its implementation.</p> | | | | | | | | | | |

Source: Prepared by the author using data from the present study of key informants, 2001.

ANNEX 6: Statistical Annex: Employment and Job Quality in Peru

TOTAL EMPLOYMENT

Table A6 1: Urban Peru – total employment by enterprise size, 1986 – 2000 (thousands)

| | 1986 | 1987 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Urban Peru | | | | | | | | | | | | | | |
| Micro | --- | --- | --- | --- | --- | --- | --- | --- | --- | 4,143.3 | 4,729.6 | 4,715.9 | 5,058.0 | 4,954.0 |
| Small | --- | --- | --- | --- | --- | --- | --- | --- | --- | 591.2 | 616.3 | 548.4 | 590.3 | 592.1 |
| Medium | --- | --- | --- | --- | --- | --- | --- | --- | --- | 267.1 | 274.2 | 323.4 | 263.4 | 303.1 |
| Large | --- | --- | --- | --- | --- | --- | --- | --- | --- | 1,020.4 | 1,047.4 | 1,235.1 | 1,189.1 | 1,181.6 |
| Total | --- | --- | --- | --- | --- | --- | --- | --- | --- | 6,022.0 | 6,667.5 | 6,822.8 | 7,100.9 | 7,030.9 |
| Metropolitan Lima | | | | | | | | | | | | | | |
| Micro | 1,141.4 | 1,119.5 | 1,182.5 | 1,325.6 | 1,376.1 | 1,481.8 | 1,572.4 | 1,637.3 | 1,796.2 | 1,941.3 | 2,017.9 | 1,961.3 | 2,088.2 | 2,155.0 |
| Small | 238.6 | 237.5 | 245.3 | 276.8 | 252.6 | 291.7 | 288.0 | 324.3 | 318.6 | 368.8 | 365.6 | 332.8 | 363.8 | 330.6 |
| Medium | 145.6 | 144.9 | 161.7 | 159.0 | 193.8 | 167.9 | 196.1 | 217.4 | 242.1 | 188.4 | 191.3 | 222.5 | 172.1 | 183.7 |
| Large | 461.9 | 559.1 | 580.0 | 507.7 | 505.3 | 469.1 | 479.9 | 503.1 | 489.1 | 430.4 | 437.1 | 578.2 | 573.0 | 534.3 |
| Total | 1,987.5 | 2,060.9 | 2,169.5 | 2,269.1 | 2,327.8 | 2,410.5 | 2,536.5 | 2,682.1 | 2,846.0 | 2,929.0 | 3,011.9 | 3,094.8 | 3,197.1 | 3,203.6 |
| Other urban areas | | | | | | | | | | | | | | |
| Micro | --- | --- | --- | --- | --- | --- | --- | --- | --- | 2,201.9 | 2,711.8 | 2,754.5 | 2,969.9 | 2,799.0 |
| Small | --- | --- | --- | --- | --- | --- | --- | --- | --- | 222.5 | 250.7 | 215.6 | 226.5 | 261.5 |
| Medium | --- | --- | --- | --- | --- | --- | --- | --- | --- | 78.7 | 82.9 | 100.9 | 91.3 | 119.5 |
| Large | --- | --- | --- | --- | --- | --- | --- | --- | --- | 590.0 | 610.3 | 656.9 | 616.1 | 647.3 |
| Total | --- | --- | --- | --- | --- | --- | --- | --- | --- | 3,093.1 | 3,655.6 | 3,727.9 | 3,903.8 | 3,827.3 |

Note: Calculations includes. The 1996 and 1997 data for medium and large enterprises are estimates because the household surveys for these years do not make it possible to separate the data by enterprise size.

Source: Author's calculations, using ENAHO data from 1986 to 2000.

PRIVATE EMPLOYMENT

Table A6 2: Urban Peru – private employment by enterprise size, 1990 – 2000 (thousands)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Urban Peru | | | | | | | | | | | |
| Micro | --- | --- | --- | --- | --- | --- | 4,143 | 4,730 | 4,716 | 5,058 | 4,954 |
| Small | --- | --- | --- | --- | --- | --- | 591 | 616 | 548 | 590 | 592 |
| Medium | --- | --- | --- | --- | --- | --- | 237 | 261 | 323 | 263 | 303 |
| Large | --- | --- | --- | --- | --- | --- | 427 | 470 | 559 | 494 | 585 |
| Total | --- | --- | --- | --- | --- | --- | 5,399 | 6,077 | 6,147 | 6,406 | 6,435 |
| Metropolitan Peru | | | | | | | | | | | |
| Micro | 1,326 | 1,375 | 1,482 | 1,571 | 1,637 | 1,796 | 1,795 | 2,007 | 1,961 | 2,088 | 2,155 |
| Small | 277 | 246 | 290 | 286 | 324 | 319 | 341 | 364 | 333 | 364 | 331 |
| Medium | 157 | 188 | 160 | 191 | 217 | 241 | 179 | 212 | 222 | 172 | 184 |
| Large | 166 | 202 | 186 | 186 | 229 | 205 | 202 | 239 | 334 | 329 | 341 |
| Total | 1,925 | 2,011 | 2,118 | 2,234 | 2,408 | 2,561 | 2,517 | 2,822 | 2,850 | 2,953 | 3,010 |
| Other Urban Areas | | | | | | | | | | | |
| Micro | --- | --- | --- | --- | --- | --- | 2,348 | 2,723 | 2,755 | 2,970 | 2,799 |
| Small | --- | --- | --- | --- | --- | --- | 250 | 253 | 216 | 227 | 262 |
| Medium | --- | --- | --- | --- | --- | --- | 59 | 49 | 101 | 91 | 119 |
| Large | --- | --- | --- | --- | --- | --- | 226 | 231 | 226 | 165 | 245 |
| Total | --- | --- | --- | --- | --- | --- | 2,882 | 3,255 | 3,297 | 2,453 | 3,425 |

Note: Calculations only exclude public employment. The 1996 and 1997 data for medium and large enterprises are estimates because the surveys for these years do not separate the data by enterprise size.

Source: Author's calculations, using ENAHO data from 1990 to 2000.

Table A7: Urban Peru – Ratio of % of wage mass to the % of total employment corresponding to the enterprise size, 1990 – 2000

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Urban Peru | | | | | | | | | | | |
| Micro | --- | --- | --- | --- | --- | --- | 0.85 | 0.79 | 0.71 | 0.73 | 0.74 |
| Small | --- | --- | --- | --- | --- | --- | 1.23 | 1.31 | 1.52 | 1.35 | 1.34 |
| Medium | --- | --- | --- | --- | --- | --- | 1.51 | 1.81 | 1.83 | 2.23 | 1.93 |
| Large | --- | --- | --- | --- | --- | --- | 1.90 | 2.28 | 2.42 | 2.68 | 2.41 |
| Total | --- | --- | --- | --- | --- | --- | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Metropolitan Peru | | | | | | | | | | | |
| Micro | 0.96 | 0.85 | 0.79 | 0.82 | 0.74 | 0.75 | 0.85 | 0.76 | 0.70 | 0.70 | 0.73 |
| Small | 1.07 | 1.25 | 1.08 | 1.19 | 1.30 | 1.37 | 1.16 | 1.19 | 1.31 | 1.16 | 1.12 |
| Medium | 1.03 | 1.40 | 1.36 | 1.32 | 1.59 | 1.49 | 1.35 | 1.64 | 1.64 | 1.99 | 1.68 |
| Large | 1.17 | 1.37 | 2.26 | 1.88 | 1.84 | 2.02 | 1.75 | 2.13 | 2.04 | 2.23 | 2.20 |
| Total | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Other Urban Areas | | | | | | | | | | | |
| Micro | --- | --- | --- | --- | --- | --- | 0.86 | 0.85 | 0.78 | 0.84 | 0.77 |
| Small | --- | --- | --- | --- | --- | --- | 1.23 | 1.33 | 1.67 | 1.41 | 1.61 |
| Medium | --- | --- | --- | --- | --- | --- | 1.53 | 0.95 | 1.56 | 1.90 | 2.10 |
| Large | --- | --- | --- | --- | --- | --- | 2.06 | 2.40 | 2.78 | 2.80 | 2.46 |
| Total | --- | --- | --- | --- | --- | --- | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

Note: Calculations exclude public employment. 1996 and 1997 data for medium and large enterprises are estimates because the surveys for these years do not separate the data by enterprise size.

Source: Author's calculations using ENAHO data from 1990 to 2000.

Table A8: Metropolitan Lima – Job quality indicators in private employment, 1991 and 1995

| | 1991 | | 1995 | |
|---------------------|-------|-------|------|-------|
| | Men | Women | Men | Women |
| Micro | | | | |
| Income | 1.0 | 0.5 | 1.0 | 0.45 |
| Hours worked weekly | 46.7 | 42.2 | 49.4 | 41.3 |
| Pensions (%) | 22.0 | 19.0 | 17.0 | 10.0 |
| Health care (%) | 22.0 | 19.0 | 25.0 | 27.0 |
| Months at the job | 93.8 | 66.0 | 73.9 | 56.0 |
| Small | | | | |
| Income | 1.3 | 0.8 | 1.57 | 1.0 |
| Hours worked weekly | 45.4 | 40.4 | 48.8 | 43.0 |
| Pensions (%) | 62.0 | 56.0 | 54.0 | 45.0 |
| Health care (%) | 62.0 | 56.0 | 59.0 | 55.0 |
| Months at the job | 75.8 | 57.3 | 50.5 | 32.8 |
| Medium | | | | |
| Income | 1.3 | 1.2 | 1.5 | 1.4 |
| Hours worked weekly | 47.3 | 41.4 | 49.6 | 42.8 |
| Pensions (%) | 69.0 | 69.0 | 71.0 | 61.0 |
| Health care (%) | 69.0 | 69.0 | 75.0 | 75.0 |
| Months at the job | 84.0 | 52.9 | 57.6 | 55.1 |
| Large | | | | |
| Income | 1.3 | 1.0 | 2.2 | 1.6 |
| Hours worked weekly | 47.5 | 41.1 | 50.8 | 41.9 |
| Pensions (%) | 79.0 | 73.0 | 81.0 | 73.0 |
| Health care (%) | 79.0 | 73.0 | 85.0 | 79.0 |
| Months at the job | 115.4 | 74.1 | 81.2 | 73.0 |
| Total | | | | |
| Income | 1.1 | 0.58 | 1.26 | 0.63 |
| Hours worked weekly | 46.7 | 41.9 | 49.4 | 41.6 |
| Pensions (%) | 40.0 | 29.0 | 35.0 | 20.0 |
| Health care (%) | 40.0 | 29.0 | 42.0 | 36.0 |
| Months at the job | 93.1 | 64.8 | 69.5 | 54.5 |

Note: Excludes public employment. The referential income (-1) for each year is that of men in micro-enterprises.

Source: Author's calculations, using ENAHO data from 1991 and 1995.

Table A9: All of Peru – Job quality indicators for private workers according to enterprise size and gender, 2000

| | Metropolitan Lima | | Other urban areas | | Rural Peru | | All of Peru | |
|---------------------|-------------------|-------|-------------------|-------|------------|-------|-------------|-------|
| | Men | Women | Men | Women | Men | Women | Men | Women |
| Micro | | | | | | | | |
| Income | 1.0 | 0.7 | 0.6 | 0.4 | 0.3 | 0.1 | 0.6 | 0.3 |
| Hours worked weekly | 49.9 | 41.8 | 43.8 | 39.3 | 38.8 | 32.9 | 43.1 | 37.3 |
| Pensions (%) | 9.0 | 6.0 | 8.0 | 4.0 | 2.0 | 0.0 | 5.0 | 3.0 |
| Health care (%) | 16.0 | 20.0 | 13.0 | 20.0 | 3.0 | 4.0 | 9.0 | 13.0 |
| Months at the job | 67.9 | 57.0 | 79.4 | 61.2 | 155.8 | 137.9 | 110.5 | 92.1 |
| Small | | | | | | | | |
| Income | 1.4 | 1.1 | 1.2 | 0.7 | 0.5 | 0.3 | 1.1 | 0.8 |
| Hours worked weekly | 46.7 | 40.8 | 42.3 | 42.3 | 42.6 | 30.3 | 44.1 | 38.8 |
| Pensions (%) | 45.0 | 33.0 | 31.0 | 39.0 | 10.0 | 7.0 | 31.0 | 29.0 |
| Health care (%) | 46.0 | 45.0 | 34.0 | 47.0 | 8.0 | 11.0 | 32.0 | 38.0 |
| Months at the job | 56.4 | 34.5 | 41.0 | 30.5 | 64.4 | 85.9 | 52.6 | 44.9 |
| Medium | | | | | | | | |
| Income | 2.0 | 1.7 | 1.6 | 0.8 | 1.0 | 0.2 | 1.8 | 1.3 |
| Hours worked weekly | 49.2 | 45.3 | 56.0 | 47.7 | 54.1 | 32.0 | 52.1 | 45.3 |
| Pensions (%) | 62.0 | 59.0 | 78.0 | 59.0 | 45.0 | 10.0 | 67.0 | 56.0 |
| Health care (%) | 65.0 | 64.0 | 75.0 | 55.0 | 43.0 | 10.0 | 67.0 | 57.0 |
| Months at the job | 56.8 | 47.8 | 56.1 | 31.3 | 37.2 | 64.8 | 54.9 | 43.2 |
| Large | | | | | | | | |
| Income | 2.7 | 2.2 | 1.8 | 1.0 | 1.1 | 1.0 | 2.2 | 1.7 |
| Hours worked weekly | 49.7 | 44.3 | 51.8 | 42.2 | 55.7 | 42.1 | 51.0 | 43.5 |
| Pensions (%) | 78.0 | 73.0 | 76.0 | 54.0 | 70.0 | 29.0 | 76.0 | 63.0 |
| Health care (%) | 79.0 | 85.0 | 77.0 | 60.0 | 73.0 | 21.0 | 78.0 | 72.0 |
| Months at the job | 68.8 | 56.5 | 104.3 | 40.7 | 53.6 | 19.1 | 82.1 | 48.5 |
| Total | | | | | | | | |
| Income | 1.4 | 0.9 | 0.9 | 0.4 | 0.3 | 0.1 | 0.8 | 0.4 |
| Hours worked weekly | 49.4 | 42.0 | 45.0 | 39.7 | 39.4 | 32.9 | 44.1 | 37.7 |
| Pensions (%) | 27.0 | 16.0 | 20.0 | 9.0 | 4.0 | 4.0 | 16.0 | 8.0 |
| Health care (%) | 32.0 | 30.0 | 24.0 | 23.0 | 5.0 | 5.0 | 19.0 | 18.0 |
| Months at the job | 65.8 | 54.4 | 76.8 | 58.5 | 147.9 | 147.9 | 100.8 | 86.8 |

Note: Calculations only exclude public employment. The referential income (-1) for each year is that of the men in the micro-enterprises in Metropolitan Lima.

Source: Author's calculations, using ENAHO data from 2000.

Table A10: Main Cities – Private workers, job quality indicators by enterprise size

| | Lima | Arequipa | Huancayo | Iquitos | Piura | Trujillo | Cuzco |
|---------------------|------|----------|----------|---------|-------|----------|-------|
| Micro | | | | | | | |
| Income | 1.0 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 |
| Hours worked weekly | 46.1 | 44.7 | 42.8 | 46.2 | 37.6 | 42.4 | 38.4 |
| Pensions (%) | 8.0 | 10.0 | 6.0 | 5.0 | 10.0 | 7.0 | 7.0 |
| Health care (%) | 18.0 | 18.0 | 14.0 | 12.0 | 20.0 | 14.0 | 19.0 |
| Months at the job | 62.8 | 75.6 | 60.7 | 96.4 | 43.4 | 59.2 | 80.1 |
| Small | | | | | | | |
| Income | 1.5 | 1.5 | 1.3 | 0.9 | 1.7 | 0.8 | 1.1 |
| Hours worked weekly | 44.4 | 43.6 | 42.6 | 43.9 | 43.8 | 42.9 | 37.9 |
| Pensions (%) | 41.0 | 40.0 | 43.0 | 26.0 | 57.0 | 27.0 | 43.0 |
| Health care (%) | 46.0 | 36.0 | 44.0 | 24.0 | 47.0 | 30.0 | 44.0 |
| Months at the job | 48.0 | 49.3 | 44.9 | 25.5 | 35.9 | 27.0 | 30.4 |
| Medium | | | | | | | |
| Income | 2.3 | 1.6 | 1.3 | 1.9 | 4.2 | 1.5 | 1.7 |
| Hours worked weekly | 48.1 | 47.1 | 50.3 | 62.4 | 54.0 | 47.5 | 48.7 |
| Pensions (%) | 61.0 | 82.0 | 76.0 | 55.0 | 75.0 | 66.0 | 69.0 |
| Health care (%) | 64.0 | 86.0 | 74.0 | 47.0 | 77.0 | 60.0 | 69.0 |
| Months at the job | 54.2 | 48.8 | 45.9 | 46.4 | 66.0 | 64.7 | 39.6 |
| Large | | | | | | | |
| Income | 3.0 | 2.0 | 1.9 | 2.5 | 3.0 | 1.7 | 1.6 |
| Hours worked weekly | 48.0 | 48.1 | 44.7 | 57.7 | 45.6 | 49.6 | 52.8 |
| Pensions (%) | 76.0 | 74.0 | 61.0 | 67.0 | 65.0 | 70.0 | 69.0 |
| Health care (%) | 81.0 | 79.0 | 68.0 | 68.0 | 71.0 | 73.0 | 75.0 |
| Months at the job | 65.0 | 53.4 | 40.4 | 77.8 | 55.4 | 48.6 | 69.5 |
| Total | | | | | | | |
| Income | 1.4 | 0.9 | 0.7 | 0.7 | 1.0 | 0.8 | 0.8 |
| Hours worked weekly | 46.3 | 44.9 | 43.0 | 46.9 | 39.3 | 43.2 | 39.8 |
| Pensions (%) | 22.0 | 21.0 | 13.0 | 11.0 | 20.0 | 15.0 | 17.0 |
| Health care (%) | 31.0 | 27.0 | 20.0 | 16.0 | 28.0 | 21.0 | 26.0 |
| Months at the job | 60.9 | 70.1 | 58.5 | 86.1 | 44.6 | 56.0 | 74.0 |

Note: Calculations only exclude public employment. The referential income (-1) for each year is that of the men in the micro-enterprises in Metropolitan Lima.

Source: Author's calculations, using ENAHO data from 2000.

PRIVATE PAID WORKERS

Table A11: Urban Peru: Real income of private paid workers by enterprise size, 1991-2000 (1994 soles)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-------------------|------|------|------|------|------|---------|---------|---------|---------|-------|
| Urban Peru | | | | | | | | | | |
| Micro | --- | --- | --- | --- | --- | 378.8 | 363.6 | 364.2 | 352.1 | 340.1 |
| Small | --- | --- | --- | --- | --- | 512 | 564.1 | 647.1 | 603.3 | 544.5 |
| Medium | --- | --- | --- | --- | --- | 675.1 | 765.4 | 917.2 | 1,104.1 | 901 |
| Large | --- | --- | --- | --- | --- | 1,044.6 | 1,106.9 | 1,210.9 | 1,348.1 | 1,170 |
| Total | --- | --- | --- | --- | --- | 534.1 | 585.4 | 686.3 | 683.6 | 618 |

Metropolitan Peru

| | | | | | | | | | | |
|--------|-------|---------|-------|-------|---------|---------|-------|---------|---------|---------|
| Micro | 303.1 | 381.7 | 328.1 | 357 | 395.4 | 444.7 | 435.5 | 441 | 425.1 | 433.8 |
| Small | 543.4 | 522.8 | 469.6 | 563.2 | 701.7 | 556.9 | 651.3 | 737.1 | 692.2 | 629.2 |
| Medium | 659.1 | 674.4 | 571.7 | 823.6 | 800.9 | 891.3 | 981.8 | 1,072.2 | 1,374.7 | 1,024.1 |
| Large | 641.8 | 1,136.4 | 838.2 | 954.7 | 1,065.4 | 1,156.2 | 1,247 | 1,337.8 | 1,560.3 | 1,311.7 |
| Total | 504.7 | 611.6 | 494.2 | 611.7 | 655.3 | 593.2 | 699.3 | 826.9 | 861.9 | 759.1 |

Note: Calculations only include private paid workers. Please see note 25 for a definition. Data for medium and large enterprises for 1996 and 1997 are estimates since the surveys for these years do not make it possible to separate the data by enterprise size.

Source: Author's calculations, using ENAHO data for 1991 to 2000.

Table A12: Urban Peru – Training for private paid workers, who received or are receiving some type of training. 1996 – 2000

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------|------|------|------|------|------|
| Urban Peru | | | | | |
| Micro | 52.2 | 38.1 | 36.3 | 32.5 | 31.2 |
| Small | 50.7 | 47.6 | 50.3 | 46.3 | 44.1 |
| Medium and Large | 54.6 | 63.5 | 58.0 | 59.8 | 58.0 |
| Total | 52.6 | 48.2 | 46.8 | 43.8 | 42.5 |
| Metropolitan Lima | | | | | |
| Micro | 58.0 | 42.2 | 40.5 | 37.4 | 34.4 |
| Small | 55.4 | 50.0 | 55.5 | 50.0 | 49.7 |
| Medium and Large | 59.4 | 68.3 | 57.9 | 63.0 | 61.7 |
| Total | 55.4 | 53.0 | 50.8 | 49.3 | 47.9 |

Note: Calculations only include private paid workers. Please see note 25 for a definition.

Source: Author's calculations, using ENAHO data for 1996 to 2000.

Table A13: Metropolitan Lima – Job quality indicators for private paid workers, 1991 and 1995

| | 1991 | | 1995 | |
|---------------------|-------|-------|------|-------|
| | Men | Women | Men | Women |
| Micro | | | | |
| Income | 1.0 | 0.8 | 1.0 | 0.8 |
| Hours worked weekly | 44.2 | 41.6 | 50.3 | 41.7 |
| Pensions (%) | 27.0 | 39.0 | 20.0 | 27.0 |
| Health care (%) | 27.0 | 39.0 | 25.0 | 35.0 |
| Months at the job | 47.6 | 43.3 | 38.0 | 26.6 |
| Small | | | | |
| Income | 2.0 | 1.1 | 1.8 | 1.3 |
| Hours worked weekly | 45.4 | 40.4 | 48.1 | 42.8 |
| Pensions (%) | 63.0 | 57.0 | 53.0 | 47.0 |
| Health care (%) | 63.0 | 57.0 | 58.0 | 56.0 |
| Months at the job | 69.4 | 54.5 | 50.1 | 32.1 |
| Medium | | | | |
| Income | 2.1 | 1.9 | 1.9 | 1.7 |
| Hours worked weekly | 47.2 | 41.0 | 49.2 | 42.9 |
| Pensions (%) | 69.0 | 70.0 | 71.0 | 61.0 |
| Health care (%) | 69.0 | 70.0 | 75.0 | 75.0 |
| Months at the job | 82.4 | 47.5 | 58.5 | 55.4 |
| Large | | | | |
| Income | 2.1 | 1.6 | 2.7 | 2.1 |
| Hours worked weekly | 47.5 | 41.1 | 51.0 | 41.8 |
| Pensions (%) | 79.0 | 73.0 | 81.0 | 74.0 |
| Health care (%) | 79.0 | 73.0 | 86.0 | 78.0 |
| Months at the job | 114.3 | 74.1 | 80.7 | 75.0 |
| Total | | | | |
| Income | 1.7 | 1.2 | 1.7 | 1.2 |
| Hours worked weekly | 45.9 | 41.1 | 49.7 | 42.2 |
| Pensions (%) | 57.0 | 54.0 | 48.0 | 45.0 |
| Health care (%) | 57.0 | 54.0 | 53.0 | 54.0 |
| Months at the job | 75.9 | 52.0 | 52.0 | 39.9 |

Note: Calculations only include private paid workers. Please see note 25 for a definition. The referential income (-1) for each year is that of the men in micro-enterprises.

Source: Author's calculations, using ENAHO data from 1991 and 1995.

Table A14: Peru – Job quality indicators for private paid workers, 2000

| | Metropolitan Lima | | Other urban areas | | Rural Peru | | All of Peru | |
|---------------------|-------------------|-------|-------------------|-------|------------|-------|-------------|-------|
| | Men | Women | Men | Women | Men | Women | Men | Women |
| Micro | | | | | | | | |
| Income | 1.0 | 1.0 | 0.7 | 0.4 | 0.5 | 0.3 | 0.7 | 0.6 |
| Hours worked weekly | 49.1 | 39.3 | 41.3 | 36.7 | 38.0 | 28.3 | 42.9 | 36.1 |
| Pensions (%) | 9.0 | 13.0 | 8.0 | 10.0 | 1.0 | 1.0 | 7.0 | 9.0 |
| Health care (%) | 13.0 | 22.0 | 12.0 | 20.0 | 3.0 | 4.0 | 10.0 | 17.0 |
| Months at the job | 38.4 | 31.0 | 29.2 | 24.5 | 37.7 | 23.4 | 34.6 | 26.9 |
| Small | | | | | | | | |
| Income | 1.6 | 1.2 | 1.0 | 0.9 | 1.1 | 0.3 | 2.1 | 1.6 |
| Hours worked weekly | 47.5 | 40.5 | 42.6 | 42.2 | 51.3 | 28.4 | 51.7 | 45.2 |
| Pensions (%) | 46.0 | 34.0 | 33.0 | 46.0 | 51.0 | 14.0 | 73.0 | 59.0 |
| Health care (%) | 48.0 | 43.0 | 35.0 | 52.0 | 48.0 | 14.0 | 74.0 | 64.0 |
| Months at the job | 53.4 | 34.1 | 33.2 | 28.6 | 31.9 | 34.5 | 56.9 | 45.8 |
| Medium | | | | | | | | |
| Income | 2.5 | 2.0 | 1.8 | 0.9 | 1.1 | 0.3 | 2.1 | 1.6 |
| Hours worked weekly | 48.9 | 45.7 | 55.9 | 46.9 | 51.3 | 28.4 | 51.7 | 45.2 |
| Pensions (%) | 70.0 | 62.0 | 82.0 | 59.0 | 51.0 | 14.0 | 73.0 | 59.0 |
| Health care (%) | 72.0 | 67.0 | 81.0 | 66.0 | 48.0 | 14.0 | 74.0 | 64.0 |
| Months at the job | 59.3 | 50.0 | 58.6 | 38.6 | 31.9 | 34.5 | 56.9 | 45.8 |
| Large | | | | | | | | |
| Income | 3.1 | 2.8 | 2.3 | 1.6 | 1.1 | 0.9 | 2.6 | 2.4 |
| Hours worked weekly | 50.2 | 44.0 | 52.5 | 45.8 | 55.0 | 40.5 | 51.5 | 44.3 |
| Pensions (%) | 87.0 | 79.0 | 84.0 | 80.0 | 78.0 | 43.0 | 85.0 | 78.0 |
| Health care (%) | 87.0 | 92.0 | 85.0 | 80.0 | 76.0 | 26.0 | 85.0 | 86.0 |
| Months at the job | 74.8 | 57.7 | 116.1 | 57.6 | 57.6 | 38.8 | 90.5 | 56.9 |
| Total | | | | | | | | |
| Income | 1.8 | 1.5 | 1.2 | 0.7 | 0.6 | 0.3 | 1.3 | 1.1 |
| Hours worked weekly | 49.0 | 41.4 | 45.1 | 39.7 | 40.7 | 28.5 | 45.7 | 38.8 |
| Pensions (%) | 44.0 | 39.0 | 35.0 | 29.0 | 11.0 | 5.0 | 33.0 | 30.0 |
| Health care (%) | 46.0 | 48.0 | 38.0 | 37.0 | 12.0 | 7.0 | 35.0 | 38.0 |
| Months at the job | 53.1 | 39.9 | 49.7 | 30.4 | 38.3 | 29.3 | 48.7 | 35.1 |

Note: Calculations only include private paid workers. Please see note 25 for a definition. The referential income (-1) for each year is that of the men in the micro-enterprises in Metropolitan Lima.

Source: Author's calculations, using ENAHO data from 2000.

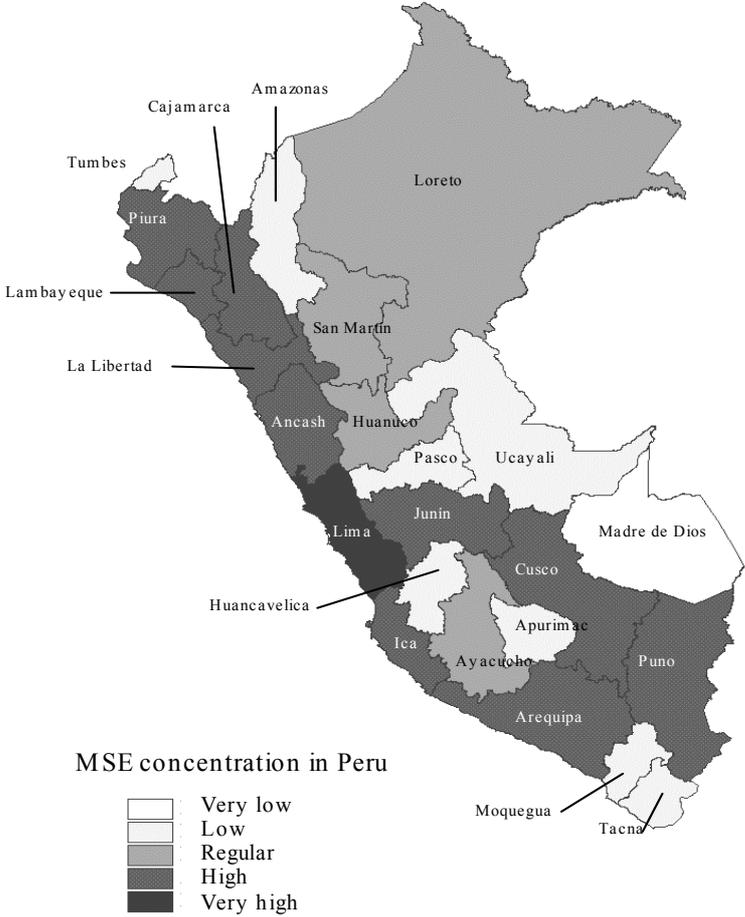
Table A15: Principal cities – Job quality indicators for private paid workers by enterprise size, 2000

| | Metropolitan Lima | Arequipa | Huancayo | Iquitos | Piura | Trujillo | Cuzco |
|---------------------|----------------------|----------|----------|---------|-------|----------|-------|
| Micro | | | | | | | |
| Income | 1.0 | 0.6 | 0.7 | 0.6 | 0.6 | 0.8 | 0.8 |
| Hours worked weekly | 46.1 | 42.0 | 45.2 | 48.9 | 38.8 | 44.5 | 39.2 |
| Pensions (%) | 10.0 | 15.0 | 11.0 | 8.0 | 14.0 | 7.0 | 15.0 |
| Health care (%) | 16.0 | 19.0 | 16.0 | 12.0 | 18.0 | 10.0 | 19.0 |
| Months at the job | 36.1 | 38.1 | 22.5 | 21.0 | 17.8 | 28.7 | 50.4 |
| Small | | | | | | | |
| Income | 1.5 | 1.3 | 1.0 | 0.9 | 1.7 | 0.8 | 1.2 |
| Hours worked weekly | 44.7 | 42.1 | 43.3 | 44.0 | 43.3 | 43.3 | 38.0 |
| Pensions (%) | 41.0 | 47.0 | 45.0 | 25.0 | 64.0 | 32.0 | 46.0 |
| Health care (%) | 46.0 | 42.0 | 42.0 | 20.0 | 54.0 | 33.0 | 43.0 |
| Months at the job | 45.8 | 41.3 | 44.1 | 17.2 | 40.4 | 28.8 | 30.7 |
| Medium | | | | | | | |
| Income | 2.4 | 1.7 | 1.3 | 2.2 | 4.5 | 1.4 | 1.5 |
| Hours worked weekly | 47.9 | 48.0 | 50.2 | 60.3 | 53.6 | 47.6 | 49.5 |
| Pensions (%) | 67.0 | 86.0 | 74.0 | 65.0 | 79.0 | 66.0 | 67.0 |
| Health care (%) | 71.0 | 91.0 | 73.0 | 56.0 | 82.0 | 62.0 | 67.0 |
| Months at the job | 56.5 | 51.4 | 46.5 | 53.2 | 69.8 | 53.2 | 43.4 |
| Large | | | | | | | |
| Income | 3.0 | 2.1 | 2.2 | 2.8 | 3.9 | 1.9 | 1.7 |
| Hours worked weekly | 48.3 | 49.8 | 48.0 | 60.1 | 46.6 | 53.1 | 53.1 |
| Pensions (%) | 85.0 | 85.0 | 84.0 | 88.0 | 89.0 | 81.0 | 80.0 |
| Health care (%) | 88.0 | 89.0 | 87.0 | 85.0 | 87.0 | 83.0 | 83.0 |
| Months at the job | 69.5 | 60.6 | 51.1 | 93.8 | 72.2 | 54.4 | 81.0 |
| Total | | | | | | | |
| Income | 1.7 | 1.2 | 0.9 | 1.1 | 1.7 | 1.0 | 1.1 |
| Hours worked weekly | 48.3 | 44.0 | 45.4 | 49.2 | 42.5 | 46.1 | 42.4 |
| Pensions (%) | 85.0 | 42.0 | 27.0 | 27.0 | 42.0 | 30.0 | 38.0 |
| Health care (%) | 88.0 | 44.0 | 30.0 | 25.0 | 42.0 | 32.0 | 40.0 |
| Months at the job | 69.5 | 44.1 | 30.2 | 28.5 | 36.1 | 35.5 | 50.9 |

Note: Calculations only include private paid workers. Please see note 25 for a definition. The referential income (-1) for each year is that of the men in the micro-enterprises in Metropolitan Lima.

Source: Author's calculations, using ENAHO data from 2000.

Annex 7: MSE concentration map



Source: Prepared by the author with data from the INEI (1993 Economic Census).

SEED WORKING PAPERS

1. “Home Work in Selected Latin American Countries: A Comparative Overview” (*Series on Homeworkers in the Global Economy*), Manuela Tomei, 2000
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3. “Homeworkers in Peru” (*Series on Homeworkers in the Global Economy*), Francisco Verdera, 2000
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20. "Jobs, Gender and Small Enterprises in Bulgaria" (*Series on Women's Entrepreneurship Development and Gender in Enterprises — WEDGE*), Antonina Stoyanovska, 2001
21. "Women Entrepreneurs in Albania" (*Series on Women's Entrepreneurship Development and Gender in Enterprises — WEDGE*), Mimoza Bezhani, 2001
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